BOE

Transform To A BETTER FUTURE

Annual Report 2017

BOE Varitronix Limited

Stock Code 710

Transform to A BETTER FUTURE

Under the rapid development of New Energy and Smart Internet of Vehicles (“Smart IoV”), the development trends of common adoption of internet, automation, integration and electrification have become a consensus of the automotive industry, following with the changes in the core technology, business operation and supply chain system. The Group strives to expand the automotive intelligent interactive system business with our technical expertise in automotive displays and interactive technologies, together with the supports from our major shareholder, BOE. Last year, the Group gained achievements in developing Dual Optical HUD, Smart Rear Mirror etc., and would continue to put efforts in the related research areas in the coming year.

CONTENT

Chairman's Statement

Highlights

HK$ million	2017	2016
Revenue	**2,879**	2,247
EBITDA[1]	**120**	149
Profit Attributable to Shareholders	**22**	51
Cash and Fixed Deposits Balance	**1,203**	1,725
Basic Earnings per Share	**3.0 HK cents**	8.4 HK cents
Total Dividend per Share	**1.0 HK cent**	2.5 HK cents

1 EBITDA means profit for the year plus the following to the extent deducted in calculating such profit for the year: finance costs, income tax, depreciation and amortisation.

On behalf of BOE Varitronix Limited (the "Company") and its subsidiaries ("BOEVx" or the "Group"), I present the results for the full year ended 31 December 2017.

During the year under review, revenue of HK$2,879 million was recorded, an increase of 28% when compared with the HK$2,247 million recorded in 2016. EBITDA[1] of the Group was HK$120 million, 19% lower than the HK$149 million recorded for the same period in the previous year. The profit attributable to shareholders of HK$22 million was recorded, a decrease of 57%, when compared with the HK$51 million recorded in 2016.

As at 31 December 2017, the cash and fixed deposits balance of the Group was HK$1,203 million, compared to HK$1,725 million at the end of 2016. The gearing ratio, being total bank loans over net assets, was nil as at 31 December 2017, compared to 0.3% in the previous year.

Mr. Yao Xiangjun
Chairman

DIVIDENDS

The Board of Directors (the "Board") has recommended a final dividend of 1.0 HK cent per share (2016: 2.5 HK cents per share). The annual dividend payout ratio was 33% (2016: 30%).

BUSINESS REVIEW

During the year under review, the Group continued to obtain stable supply of Thin Film Transistor ("TFT") panels from its major shareholder, BOE Technology Group Co., Ltd ("BOE"), which facilitated the Group to acquire the orders of automotive displays from customers in Europe and the People's Republic of China (the "PRC"), and contributed to the rapid growth in the TFT modules sales. Meanwhile, as the average selling price of TFT module products was higher than those of monochrome displays, and the proportion of medium-to-large-sized TFT modules products increased in the sales orders mix, the average selling price of the Group's product mix increased accordingly, which in turn contributed to the growth in revenue. However, the selling prices of TFT module products were under pressure inevitably under the intense competition in the TFT modules market. In addition, the Group had strived to become the major TFT supplier of its strategic customers during the year so as to achieve the economies of scale of production in the future. During the initial stage of rapid development of TFT modules business, significant investment costs were incurred which affected the profit margin of the orders. Besides, as the Group was currently undergoing the transformation period of the TFT production model, which shifted from the production of monochrome displays and small-to-medium-sized TFT module products to that of medium-to-large-sized TFT module products, the Group needed to invest more resources in technologies, staff training and equipment allocation, thus posing pressure on the gross profit margin.

In the meantime, the working capital, including inventories and accounts receivables, increased compared to 2017 under the expansion of TFT modules business, as the selling prices of TFT modules were much higher than those of monochrome displays. The net proceeds of approximately HK$1,392 million from the Subscription has been utilized in the manner that is consistent with the intended use of proceeds of the Subscription as disclosed in the circular of the Company dated 22 March 2016.

Automotive Display Business

For the year under review, the automotive display business generated revenue of HK$2,048 million, an increase of 38% from the revenue of HK$1,487 million recorded in 2016. This business represented approximately 71% of the Group's overall revenue.

During the year, TFT modules orders from automobile customers in Europe and the PRC increased significantly. The revenue from Europe increased by approximately 38% as compared to the previous year. The European strategic customers gained confidence of stable TFT panel supply of the Group which placed significant size of TFT modules orders, especially the medium-to-large-sized TFT modules orders. However, during the initial stage, the Group needed to invest more resources to cope the production demand of these orders, thus resulting in the decrease in the gross profit margin. The sales volume of monochrome automotive displays in Europe remained stable while the selling prices were still under pressure. The Group also took various measures to control the materials and operating costs of the monochrome automotive display business in order to stabilize the gross profit margin of this business.

Benefited from the extensive customer network of BOE, the Group seized plenty of orders of medium-to-large-sized TFT module products from the PRC automobile customers during the year, resulting in a significant increase of 30% in revenue from the PRC. Although there is still a certain demand of monochrome automotive display from the PRC automobile customers, both the sales volume and selling prices shown a declining trend. The Group will continue to optimize the costs structure in order to stabilize the margin contribution of these business to the Group.

During the year under review, the revenue from South Korea market increased by approximately 16% as compared to 2016. As TFT module products were extensively adopted by automobile customers in South Korea and were expected to be adopted by monochrome display customers upon the expiry of their order contracts. There would be minimal orders of the monochrome displays from South Korea. In the first half of 2017, the TFT modules business was affected due to intense relationship between the PRC and South Korea. As the intense relationship has been moderated in the fourth quarter of 2017, the TFT modules business has gradually recovered.

During the year under review, the monochrome automotive displays business of Japan has achieved significant growth. Revenue of monochrome displays from the automobile market in Japan increased by 37% during the year as compared to the previous year. After years of operation, the Group has a solid automobile customer base in Japan which benefit the growth of monochrome displays business. In the meantime, the local sales team in Japan had further strengthened with certain Japanese customers with respect to TFT automotive displays with remarkable growth.

Industrial Display Business

For the year under review, the industrial display business generated revenue of HK$831 million an increase of 9% from the revenue of HK$760 million recorded in 2016. This business represented approximately 29% of the Group's overall revenue. Revenue from the industrial display business was mainly derived from Europe and the United States. During the year, industrial display business orders were mainly characterized by large quantity and relatively lower selling prices.

The Group's industrial display business in Europe has maintained steady development. Industrial customers are still primarily using monochrome displays for electricity meter which accounted for major portion of the Group's industrial sales. The white goods manufacturers in Europe now prefer to install TFT modules on the white goods in order to enhance the image and price of their products. Given that the Group secured a stable supply of TFT panel, white goods manufacturers placed more orders with us for TFT modules during the year, which generated a continued growth of TFT industrial business.

The United States was a major market of industrial displays, and revenue derived from this market increased by approximately 12% as compared with that of the same period in 2016. The fourth quarter of 2017 experienced a gradual recovery of the sales of industrial displays in the United States, in particular sales to the medical sector, due to our efforts of rebalancing the business portfolio, which contributed to an increase in our revenue.

BUSINESS OUTLOOK

Automotive Display Business

The constructive strategic partnership relationships between automotive customers and modules suppliers are based on the stable product supply, good quality and product design. Currently, the Group has established a good reputation among its targeted automotive customers, who have showed a high level of appreciation of the Group's stable supply of TFT panels. It was evidenced by an increasing inquiry of TFT modules from automobile customers in Europe and the commencement of mass production of certain orders gradually in 2018. Due to the intense competition in the TFT modules market and small scale of production, the gross profit margin of new sales orders is thin during the initial stage of production. The Group has developed a development strategy based on strategic customer based approach, aiming at securing orders of medium-to-large-sized TFT modules with higher selling prices, which enable us to enhance production efficiency and cost control through the consolidation of processing of similar orders in the production lines and centralized procurement of materials, so as to achieve economies of scale.

It is expected that TFT modules orders from automotive markets in China and South Korea will continue to increase, with medium-to-large-sized TFT modules orders constituting the largest portion of future growth of both markets.

The Group will mainly adopt the TFT module products as the core development sector in the future. Although it is expected that orders for monochrome displays will gradually shrink, the Group will maintain this business segment given that there are still considerable demand of monochrome displays of Japan automotive markets. Also, the Group can adopt monochrome displays to penetrate the automotive emerging markets such as India and South America. The Group will streamline the operation of the monochrome display production lines to meet the production requirements of various monochrome display products and to operate in a flexible manner, in order to further reduce our operating costs.

Industrial Display Business

The white goods manufacturers of Europe increasingly prefer the use of TFT modules which has a huge growth potentials. The Group will customerize the design of TFT modules which meet the demand of white goods manufacturers in Europe. Monochrome displays still dominate the basic application of electricity meters and industrial instruments of European market. The Group will focus on the development of projects with mass volume and strategic value in order to stabilize the revenue and profitability of this sector by optimizing the cost structure and production process.

The United States market has shown a sign of steady development after certain market adjustment. The customers of this market have also shown a stronger interest in TFT modules products, as evidenced by the increasing inquiry of TFT products, indicate a room of development in the TFT markets.

Production Strategy

Our TFT modules assembly plant in Chengdu has been put into mass production in the fourth quarter of 2017, and its production model and operation flow are further strengthened and optimized so as to improve production efficiency. The plant is located close to the TFT panel production facilities of BOE, which facilitates the communication to resolve any technical and logistics issues of TFT panels, thus creating a synergy for the production of our TFT modules. To meet the requirements of products specifications and orders quantity of TFT modules, the Group will further increase the production capacity of the TFT modules assembly plants in order to accommodate the growth of future TFT modules orders.

Technology Development

The Group has developed and manufactured cockpit display modules designated to be used in electric cars and autonomous vehicles. In terms of cockpit display modules, the multi-layer display is embedded under the windscreen. The Group has commenced several relevant research projects in 2017, involving cockpit display modules, anti-reflective windscreens and three-layer displays bonded with optical adhesives. These research projects will be gradually completed in 2018.

Research on True Colour Display for the exclusive use on automobiles has achieved solid progress, which showed that its colour gamut is comparable with that of OLED displays with cost effectiveness. The Group has also developed the Gate on Array ("GOA") technology applicable to automobiles. Display products adopted the GOA technology only have an extremely narrow boarder, and have a stronger competitive edge than LTPS displays due to the lower production costs as a result of less application of masks.

The Group's research and development of touch panel products include One Glass Metal-mesh automotive displays, whereby the ITO is replaced with the metal-mesh, which makes the display thinner, improves transmitting accuracy and reduces conductive traces and reflections. In addition, several large-sized touch panel research projects such as Multi-layers on Cell screens, Full In-cell Touch screens and High Dynamic Range screens will be gradually finished in the fourth quarter of 2018.

Under the rapid development of New Energy and Smart Internet of Vehicles ("Smart IoV"), the development trends of common adoption of internet, automation, integration and electrification have become a consensus of the automotive industry, following with the changes in the core technology, business operation and supply chain system. The Group strives to expand the automotive intelligent interactive system business with our technical expertise in automotive displays and interactive technologies, together with the supports from our major shareholder, BOE. Last year, the Group gained achievements in developing Dual Optical HUD, Smart Rear Mirror etc., and would continue to put efforts in the related research areas in the coming year.

ACKNOWLEDGEMENT

The Group acted as the late market player of automotive markets of TFT modules, the gross margin was decreased under the intense market competition, the increase in manufacturing overheads and operating costs resulted from the development of the TFT business. Under the increasing competition of the TFT modules market, the Group is essential to take proactive approach to increase market share to secure mass production in order to achieve economies of scale and improve gross profit margin gradually. In order to gain more market share of strategic customers, the Group will further invest the TFT modules assembly lines in 2018 and strengthen its capability of materials procurement, product design, production technology and quality control to create a strong base for the development. In the meantime, investment in production facilities also acted as a solid foundation of the Group's future development of automobiles system business.

In short term, the Group's profitability will still be affected under the intense competition of market price and development stage of TFT business. Nevertheless, the Group is determined to develop its TFT business as its business strategy with specific goals. The Group remains optimistic about its TFT business. The Group will forge ahead along its formulated strategic roadmap in 2018. With strong support from BOE in TFT panels, the Group will expand its market share in the TFT market with a primary focus on the automotive and industrial segment. We believe that we can certainly further develop the TFT business with our strong foundation in the two business segments. For the Smart IoV, the Group will continue to invest in and develop smart interactive systems, and strengthen the cooperation with BOE in artificial intelligence, big data and other Internet of Things technologies, aiming to create sustainable value for the customers in the automotive and industrial sectors. I would like to take this opportunity to sincerely thank the Board, the management, the employees, the shareholders and business partners for their support over the past year. The Group will continue to work hard and strive to deliver a better performance.

Yao Xiangjun
Chairman
Hong Kong, 27 March 2018

Management Discussion and Analysis

REVENUE

The Group's revenue for the year ended 31 December 2017 increased by 28% to HK$2,879 million as compared to the previous financial year.

PROFIT FROM OPERATIONS

The profit from operations for the year ended 31 December 2017 was HK$21 million, a decrease of HK$39 million or 65% as compared to the previous financial year.

During the financial year 2017, the Group spent HK$213 million on research and development ("R&D") activities, which represented approximately 7% of the Group's revenue.

NET PROFIT AND DIVIDENDS

The profit attributable to shareholders for the year ended 31 December 2017 was HK$22 million, as compared to a profit of HK$51 million in 2016.

Basic earnings per share for the year ended 31 December 2017 were 3.0 HK cents as compared to basic earnings per share of 8.4 HK cents in the previous financial year. During the year, the Group did not declare an interim dividend. The Board has recommended a final dividend of 1.0 HK cent per share for the year ended 31 December 2017, which will aggregate to HK$7 million. The total dividend for the year amounted to 1.0 HK cent per share.

STRUCTURE OF ASSETS

As at 31 December 2017, the total assets of the Group amounted to HK$3,470 million (2016: HK$3,174 million). At the year end, inventories increased by 78% to HK$803 million (2016: HK$451 million) while available-for-sale securities amounted to HK$13 million (2016: HK$11 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the total equity of the Group was HK$2,802 million (2016: HK$2,732 million). The Group's current ratio, being the proportion of total current assets against total current liabilities, was 4.37 as at 31 December 2017 (2016: 6.36).

At the year end, the Group held a liquid portfolio of HK$1,236 million (2016: HK$1,790 million) of which HK$1,203 million (2016: HK$1,725 million) was in cash and fixed deposits balance, HK$33 million (2016: HK$65 million) in other financial assets. The unsecured interest-bearing bank loans amounted to HK$Nil (2016: HK$9 million). The gearing ratio (bank loans over net assets) was Nil% (2016: 0.3%).

The Group's inventory turnover ratio (annualised cost of inventories over average inventories balance) for the year was 3.9 times (2016: 3.9 times). Debtor turnover days (trade receivables over revenue times 365) for the year was 93 days (2016: 75 days).

CASH FLOWS

In the year under review, the Group's cash used in operations amounted to HK$343 million (2016 cash generated from operations: HK$235 million). The increase in inventories and trade and other receivables reduced cash flow by HK$348 million and HK$336 million respectively, mainly due to increase in working capital resulted from the expansion of TFT modules business, as the selling price of TFT modules were higher than those of monochrome displays.

Net cash generated from investing activities amounted to HK$230 million (2016: net cash used in investing activities amounted to HK$576 million). There were payments for the purchase of fixed assets of HK$250 million (2016: HK$68 million).

CAPITAL STRUCTURE

The Group's long-term capital comprises shareholders' equity and debt, which includes the bank borrowings. There was no change as to the capital structure of the Group during the year. The Group had repaid the bank borrowings amounted to HK$9 million during the year and the bank borrowings decreased to HK$Nil as at 31 December 2017. The net proceeds of approximately HK$1,392 million from the Subscription has been fully utilized for the manner that is consistent with the intended use of proceeds of the Subscription as disclosed in the circular of the Company dated on 22 March 2016.

FOREIGN CURRENCY EXPOSURE

The Group is exposed to foreign currency risk primarily through sales, purchases, loan receivables and bank loans that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United State dollars, Euros, Japanese Yen and Renminbi.

The Group is not engaged in the use of any financial instruments for hedging purposes. However, the management monitors foreign exchange exposure from time to time and will consider hedging significant foreign currency exposure when the need arises.

CONTINGENT LIABILITIES

As at 31 December 2017, the Company had contingent liabilities for guarantees given to banks in respect of banking facilities granted to certain subsidiaries, which were utilised to the extent of HK$Nil (2016: HK$9 million).

COMMITMENTS

As at 31 December 2017, the Group had capital commitments of HK$431 million (2016: HK$84 million), representing the purchase of property, plant and equipment not provided for in the financial statements. The commitment is mainly related to the purchase of TFT modules assembly equipments in order to cope with the increase of TFT modules sales, which is expected to be funded by unsecured interest-bearing bank loans. The total future minimum lease payments under non-cancellable operating leases for properties payable within one year amounted to HK$7 million (2016: HK$6 million).

STAFF

As at 31 December 2017, the Group employed 5,473 staff around the world, of whom 154 were in Hong Kong, 5,270 in the People's Republic of China ("PRC") and 49 were in overseas. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group operates an employee share option scheme and provides rent-free quarters to certain of its employees in Hong Kong and the PRC.

The Group adopts a performance-based remuneration policy. Salary adjustments and performance bonuses are based on the evaluation of job performance. The aim is to create an atmosphere that encourages top performers and provides incentives for general employees to improve and excel.

STAFF RETIREMENT SCHEMES

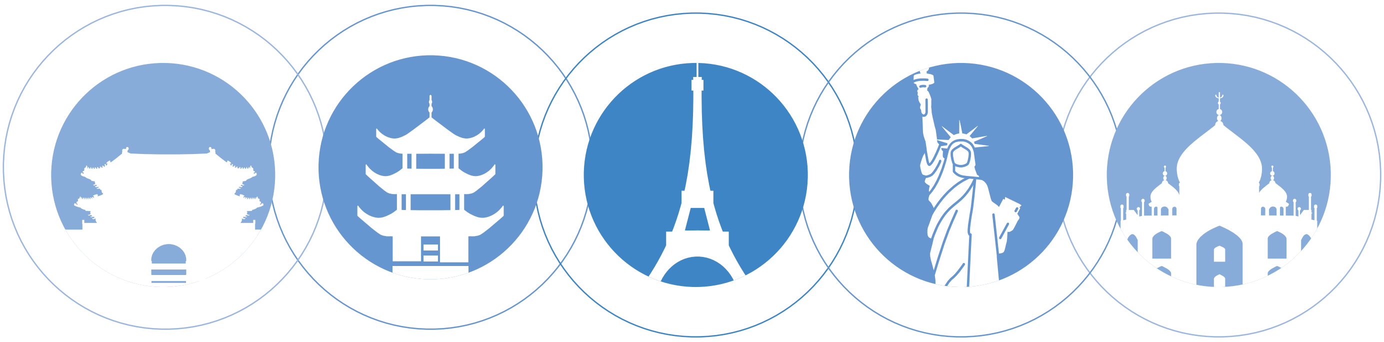
The Group principally participates in defined contribution retirement plans. In Hong Kong, the Group participates in the Mandatory Provident Fund Scheme operated by independent trustees. Contribution at a fixed rate of 5% of the employee's relevant income (the "Relevant Income"), subject to a cap of monthly Relevant Income of HK$30,000 per employee, are made to the scheme and are vested immediately.

In addition, the Group also operates a Top-Up ORSO scheme, approved by the Inland Revenue Department under Section 87A of the Inland Revenue Ordinance, and both the employer and the employee are required to contribute 5% of the excess of the Relevant Income to the scheme. It is only eligible for employees who joined the Group on or before 30 June 2009.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in central pension schemes operated by the local municipal government. The subsidiaries are required to contribute certain percentage of the payroll costs to the central pension schemes. The contributions are charged to the profit or loss as they become payable in accordance with the rules of the central pension schemes.

During the year, the total retirement scheme cost charged to the Consolidated Statement of Profit or Loss for the year ended 31 December 2017 was HK$38 million (2016: HK$32 million). Charges to administer the scheme are deducted from the employer's contributions. Forfeited contributions are used by the employer to offset against future contributions. The amount so utilised during the year ended 31 December 2017 was HK$Nil (2016: HK$3,000) and at 31 December 2017, the balance available to reduce the level of contributions in future amounted to HK$5,000 (2016: HK$4,000).

Review of Operations



KOREA	THE PRC	EUROPE	AMERICA	OTHERS
5%	**32%**	**44%**	**9%**	**10%**

Revenue by Geography

EUROPE

During the year under review, revenue of HK$1,257 million was generated from the display business in Europe, an increase of 38% as compared with that in 2016. The European business contributed 44% of the total revenue for the Group in 2017.

Automotive Display Business

In Europe, the Group recorded a significant increase of revenue from the TFT display business. This was especially obvious in Germany and the Czech Republic. The sales volume of monochrome display business remained stable in 2017 but the average selling price was still under pressure.

In 2017, benefited from the Group's effective strategic customer based approach, the stable supply of panels and the enhancement of TFT modules production capacity, orders of TFT modules from European customers increased significantly, which led to a substantial increase in revenue of this business. However, the gross profit margin of this business dropped due to the intense market competition and the increased manufacturing and operating cost during the development stage of the TFT modules. In 2018, the Group will further increase the production capacity of TFT modules and expand its market share to strive for economies of scale to a greater extent, thus gradually improving the gross profit margin. The Group has established a stable strategic customer base in Europe, together with abundant and

flexible supply of panels as well as continuous increase of production capacity, the Group is full of confidence to further increase the market share of TFT modules in Europe.

During the year under review, the sales volume of monochrome automotive displays in Europe was similar to that in last year while the gross profit margin was still under pressure as a result of the continual decline of selling prices. The Group also took various measures to reduce the material and operating costs and improve the production efficiency of the monochrome automotive display business in order to stabilize the gross profit margin of this business. As it has become an predominated trend for the European mainstream automotive customers to adopt the TFT modules, the Group expected that there is still a room for decline in the sales volume from the monochrome automotive displays business. In spite of this, the Group will continue to optimize the costs structure in order to stabilize the profit contribution of this business to the Group.

Automotive TFT displays tend to develop towards the trend of large size, high resolution, thinness and cost effectiveness. Therefore, the Group has achieved solid progress in the research on True Colour Display, which showed that its colour gamut is comparable with that of OLED displays. At the same time, the Group has also developed the Gate on Array ("GOA") technology applicable to automobiles. Display products adopting the GOA technology are of higher resolution and more cost-effective. In addition, New Energy and Smart Internet of Vehicles have rapid development in recent years. The Group is actively striving to expand the automotive intelligent interactive system business. During the year under review, the Group gained certain achievements in the research and development of Dual Optical HUD, Smart Rear Mirror etc.

Industrial Display Business

During the year under review, the Group's industrial business in Europe has maintained steady development. The revenue increased slightly as compared to that in 2016. Most European electricity meter customers maintained stable sales order.

Monochrome displays still dominate the application of electricity meters and industrial instruments of European market which will continue to serve as an important base for the Group's industrial display business. In spite of the stable orders from this business, they generate less profit contribution to the Group due to their relatively low average selling prices. Therefore, the Group will continue to optimize the costs structure to stabilize the revenue and profit contribution of this business to the Group.

Review of Operations

The white goods manufacturers in Europe increasingly prefer to install TFT modules on the white goods in order to enhance the image of their products. The selling prices and gross profit margin of white goods adopting TFT modules were higher than those adopting monochrome displays. With a stable supply of TFT panels and its design capability, the Group was able to meet the requirements of white goods manufacturers in Europe. The Group believes that it can take advantage of the development opportunities to increase the revenue and profit contribution of this business.

AMERICA

America generated revenue of HK$268 million in 2017, contributing 9% to the total revenue of the Group. America's revenue in 2017 increased by 12% as compared with that in 2016.

Industrial display has always been a major business segment in the America's market. The fourth quarter of 2017 experienced a gradual recovery of the sales of industrial displays in the United States, in particular in the medical sector, due to our efforts of rebalancing the business portfolio, which contributed to an increase in our revenue. On the industrial display business side, medical product and point of sales ("POS") product sectors are still the major application areas. The sales team has secured certain quantity of sales orders from our key medical product and POS customers, which will provide a stable revenue source for the Group.

In terms of automotive display business, the Group recorded an increase in revenue as a result of the development of the monochrome displays business in 2017. In addition, some customers increased order inquiries and placed some orders regarding TFT module products. It is expected that the sales volume of TFT module products in the America's market will gradually increase in 2018.

THE PRC

Revenue contributed by the PRC was HK$923 million during the year under review, representing an increase of 30% as compared with that in 2016. This region accounted for approximately 32% of the Group's total revenue.

Benefited from the extensive business network of BOE, the Group successfully seized more orders of medium-to-large-sized TFT module products from the PRC automobile customers during the year, resulting in a significant increase in revenue of the automobile business. Due to the continuously declined demand for monochrome automotive display from the PRC automobile customers, it is expected that this business will continue to decline in 2018. Nevertheless, the Group will still strive to reduce the materials and operating costs of the business in order to maintain the revenue and profit contribution of this business to the Group. The applications of electricity meter and industrial instruments

still form as fundamental customer base for the industrial displays market in the PRC. During the year, the Group has been continuously expanding the customer network to increase the revenue of this business.

Besides, the Group's automotive touch panel business developed rapidly in the PRC. In order to cater for the customers' requirements of the thickness, resolution and transmitting accuracy of touch panel products, the Group is in the research and development of One Glass Metal-mesh automotive displays to satisfy the expectations of customers. In addition, several large-sized touch panel research projects such as Multi-layers on Cell screens, Full In-cell Touch screens and High Dynamic Range screens will be gradually finished in 2018.

KOREA

Revenue generated in Korea was HK$152 million in 2017, increased 16% compared to 2016. Korea accounted for 5% of the total revenue of the Group.

Similar to the development of the PRC market, the Korean automotive manufacturer customers have extensively adopted the TFT technology which caused the continual decline in the business performance of monochrome display. Despite of this, the Group won a considerable amount of the TFT modules and touch panel new sales orders and gradually commenced mass production during the year under review, which partly offset the adverse impact of drop in monochrome display business in Korea.

However, in the first half of 2017, the TFT modules business in this area was affected due to the intense relationship between the PRC and Korea. Fortunately, as the intense relationship has been moderated in the fourth quarter of 2017, the TFT modules business has gradually recovered. It is expected that there is still a growth potential in revenue of the automotive TFT modules products in 2018.

The Group has always been investing to strengthen the technical know-how of touch panels for specific applications in automobiles, and projects related to this technology have started to come to fruition. Several brand-new touch panel products will be gradually finished in the fourth quarter of 2018. The Korean customer segment is one of the pioneers in the automotive industry to adopt the new technology in automotive displays. It is expected that continual growth in revenue will be achieved from automotive touch display business in 2018.

Environmental, Social and Governance Report

The Group began incorporating its Environmental, Social and Governance (ESG) Report into its Annual Report from 2014. This ESG Report was prepared for the year ended 31 December 2017 with reference to the ESG Reporting Guide published by The Hong Kong Exchanges and Clearing Limited (the "Stock Exchange"), and based on the material aspects of the Group and stakeholders. Our TFT modules assembly plant in Chengdu has been put in the mass production in the fourth quarter of 2017, unless otherwise stated, this ESG Report covers operations in the PRC (including Heyuan and Chengdu) and Hong Kong, which together represent the core operations of the Group.

The Board has been closely overseeing the Group's initiative to make continuing ongoing improvements and to formulate an effective reporting mechanism. BOEVx's ESG risk management and reporting mechanism takes into consideration operational management and relevant stakeholders. Assessment of ESG status and progress are conducted on an ongoing basis.

ESG Risk Management and Reporting Mechanism

Functional Departments

Designing, implementing and monitoring risk management and internal control systems in relation to ESG, taking into account the Board's ESG priority.

ESG Risk Management Team

Monitoring to ensure effective implementation of ESG strategic plan, and regularly reviewing stakeholders' expectation on ESG matters.

Key Stakeholder

Shareholders/Investors, regulators, customers, suppliers, community, employees

Board of Directors

Recognising and prioritising stakeholders' need and expectations in relation to ESG, and formulating strategic plan accordingly.

The ESG Risk Management Team consists of top management from operations and finance, and communicates regularly to ensure ESG risks are properly managed.

The Board takes ESG issues seriously to ensure the top management of each function monitors its own area of responsibility, always seek improvements and is committed to rolling out development plans with stakeholders' interests a primary concern.

ENGAGING STAKEHOLDERS

The Group communicates regularly with stakeholders through various channels in order to understand their different expectations and the possible impacts to them of its sustainable development activities.

Stakeholders	Communication Channels	Content
Shareholders/Investors	• Annual general meetings and notices • Annual/interim reports, financial statements and announcements • Direct communications • Corporate website • Investor briefings	• Business sustainability • Financial performance • Corporate transparency • Corporate social responsibility
Regulators	• Meetings • Compliance reporting	• Compliance with laws and regulations
Customers	• Direct communication via frontline staff • Customer audits and factory visits • Corporate website	• Quality products and services, and delivery arrangements • Technological developments • Product responsibility • Factory and labour conditions
Suppliers	• Direct communication and meetings • Site visits and reviews • Vendor acceptance and management processes • Questionnaire	• Sustainable procurement • RoHS considerations • Corporate reputation • Industry experience and expertise
Community	• Involvement in and meeting with various communities through social services and sports activities • Cooperation with local universities and NGOs	• Improvement of community environment and culture • Support for public welfare activities
Employees	• Training and development • Regular performance appraisals • Newsletters • Work-life balance activities • Policy communication • Communication with labour union	• Health and safety • Remuneration and welfare • Career development • Integrity and business conduct

MATERIALITY ASSESSMENT

The issues that matter most to the Group's business and its stakeholders are identified and presented in the materiality matrix above. The Group places comparatively higher emphasis on ESG matters relating to the environment, employee safety and supply chain management as these are external stakeholders' top concerns, weighted against the risks and opportunities they present to the Group. Whilst higher priority is given to these areas, other ESG aspects are also monitored on an ongoing basis and are included in this ESG report to enhance corporate transparency.

ENVIRONMENT

Over years, the Group has developed streamlined operating processes and energy-efficient hardware to lessen energy and water utilisation, improved the use of resources and investigated new means for environmental preservation.

As a manufacturing company, the Group's management is always aware of the importance of sustainable development and environmental protection. The Group's policy on emissions and waste is fully complied with the requirements of the emission standard in 《水污染物排放限值》(DB44/26-2001),《大氣污染物排放限值》(DB44/27-2001) and other relevant requirements and standards.

The Group has been accredited with ISO 14001 since 2005. Under this accreditation, the Group resolves to comply with environmental laws, regulations and other applicable requirements, and to reduce or eliminate pollution while minimising any impact on the environment.

The manufacturing facilities in Heyuan city and Chengdu city are required to undergo stringent environmental audit and continuous monitoring, in order to protect the natural resources in the region and also to comply with all relevant local environmental laws and regulations.

Emission and Waste Performance of Heyuan Plant

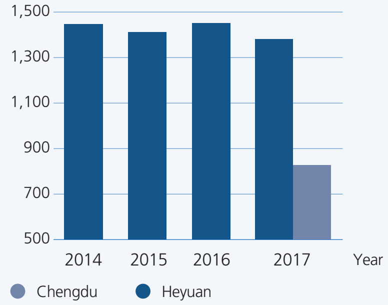
Waste	Total tonnes in 2017	Tonnes/ Revenue (HKD1,000 million) in 2017	Total tonnes in 2016	Tonnes/ Revenue (HKD1,000 million) in 2016	Total tonnes in 2015	Tonnes/ Revenue (HKD1,000 million) in 2015	Total tonnes in 2014	Tonnes/ Revenue (HKD1,000 million) in 2014
Air								
HCL	**2.29**	**0.795**	3.13	1.39	2.9	1.17	3.8	1.45
Particulates	**0.89**	**0.309**	<0.065	<0.0289	<0.050	<0.0201	0.098	0.0375
SO_2	**0.5**	**0.174**	<0.1630	<0.0725	<0.1544	<0.0621	<0.0737	<0.0282
NOx	**2.54**	**0.882**	0.182	0.0809	0.175	0.0703	0.172	0.0658
Oil Fumes	**0.02**	**0.007**	0.01	0.01	0.02	0.01	<0.01	<0.01
Water								
Wastewater	**706,387**	**245,358**	662,863	294,999	837,897	336,775	859,906	329,088
Solid								
Solid Waste Hazardous	**88.97**	**31**	82.87	37	70	28	78	30
Solid Waste Non-hazardous	**978.29**	**340**	915	407	574	231	685	262

In 2017, the total tonnes and tonnes per revenue (HKD1,000 million) of solid waste non-hazardous of Chengdu plant were 86.22 and 30 respectively.

ELECTRICITY AND WATER CONSUMPTION, AND EMISSIONS

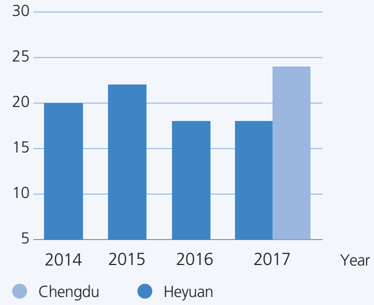
Electricity Consumption per Production Output

Electricity (kWh / 1,000 unit)



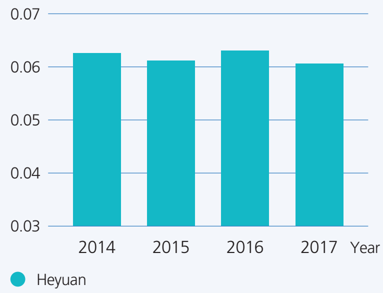
Water Consumption per Production Output

Water (tonne / 1,000 unit)



Emissions per Production Output

CO_2 (tonne / 1,000 unit)



Emissions

Major emissions in the production plant are primarily collected at the exhaust vents of the production buildings and canteen kitchen of Heyuan plant. Hydrochloric acid is the main emission created by the production process. It is used at the etching stage when producing LCD panels. The volatilised hydrochloric acid is drawn to the ventilation system in the production buildings, then transmitted to the neutralising machines on the rooftop and neutralised with alkali before being released to the air.

Emissions such as particulates, sulphur dioxide, nitrogen oxide and oil fumes are collected from the exhaust vent at the canteen kitchen of Heyuan plant. These substances are mainly produced during the process of fuel combustion. The increase in emissions in 2017 compared with previous years was mainly due to the increase in the amount of food served in the canteen because of the increase in the number of employees.

During the reporting period, the Company's product structure and sales volume is changing which caused the change in emission and waste performance as compared to the previous year. The quantity of emissions of hydrochloric acid, particulates, sulphur dioxide, nitrogen oxide and oil fumes were all within the standards as stipulated by the Environmental Protection Bureau in Heyuan. Environmentally clean fuel has been used consistently since the second half of 2009, to reduce the emission of nitrogen oxide from kitchen ventilation. The Chengdu production plant is mainly engaged in TFT module assembly and thus no notable emission is generated.

Wastewater

Waste is unavoidable during the manufacturing and operation process, but the Group keeps a stringent control on the emission and ensures it is properly treated to minimise any negative impact to the environment.

Wastewater generated during the manufacturing process is treated in a large underground wastewater treatment facility with a daily maximum treatment capacity of 4,000 cubic meters. The current actual daily treatment is about 3,000 cubic meters. A computer software program recognised by the Heyuan Environmental Protection Bureau has been installed to provide the data on elements such as Chemical Oxygen Demand (COD) and the PH level at the discharge vent directly to the Bureau's system. That means the wastewater discharge in the production plant is under continuous and timely monitoring by the Bureau. During the reporting period, there was no event or reported case of non-compliance which significantly influenced the water source.

Solid Waste

Non-hazardous solid waste is usually produced during manufacturing and daily living. Used carton boxes, wooden packing cases and scrap glass are collected by qualified recycling contractors. Production plant staff are also encouraged to put rubbish into designated garbage containers. Such collected garbage is also collected by qualified recycling contractors.

Hazardous waste from the production area consists primarily of materials used in the manufacturing process. Chemicals used during production are collected and treated in full compliance with local environmental regulations.

Measures to Reduce Emissions and Waste

Since 2016, the Group mitigated 2.8 tonnes (per annum) of hazardous waste by recycling the used non-dust cloths, classified as hazardous waste after use with alcohol, with special treatment. Wastewater was also reduced to 40mg/L of Chemical Oxygen Demand (COD) through Mixed Wastewater Treatment of domestic sewage and industrial wastewater, which is lower than the emission standard value of 90mg/L. In 2017, an investment of HK$936,700 in the transformation of the water loop treatment system at the Heyuan plant which was used to treat the waste water and recycling. It reduced the annual discharge of 6,000 tonnes of wastewater.

The Company's TFT Production was accredited with the "2017 Company Electronic Control - Excellence Team in Energy Saving and Emission Reduction" by the Beijing Electronics Industry Trade Union. The award was recognized for the recycling of dust-free cloth, which has been used for cleaning the patch glass and TP visual inspection cleaning. After unified purification in the recycling, the dust-free cloth can be used for cleaning the glass-hydrogel reinforced process, i.e. the epoxy dispensing process (syringe tip and syringe cleaning), machines, worktop, curing racks, fixtures, ovens, etc. This contributed a saving of approximately RMB1,530,000.

Use of Resources

As a manufacturing company, electricity and water are the resources most used during the course of operations. Management recognises the significance of energy conservation, and ongoing measures are in place to reduce the use of natural resources. The Group regularly reviews ways for the efficient use of resources and develops improvement plans, with the aim of further reducing consumption of these resources while maintaining effective operation of the production plant. However, due to the increase in production capacity of Heyuan plant in 2017 as compared to 2016, the average energy consumption (i.e. total electricity consumption/ total production output) was reduced.

For Chengdu plant, the electricity consumption per production output is lower than that of Heyuan plant as it only engages in TFT module assembly process. The water consumption per production output in 2017 is at a higher level, as it was not reaching full capacity during initial stage of mass production.

At the same time, the Group strives to minimise any impact on the environment and save material costs by continuously reviewing the design for product packaging, with the aim of reducing packaging size. Despite this, as the Group's products are glass LCD panels or modules, they must be protected with polyfoam trays during delivery and so the use of polyfoam trays is unavoidable.

In 2017, the quantities of carton boxes and polyfoam trays used for product storage and transportation in Heyuan were 1,075 tonnes and 1,148 tonnes respectively. This indicates an increase of 15.8% and 26.6% respectively, as compared with the year 2016. In 2017, the quantities of carton boxes and polyfoam trays used for product storage and transportation in Chengdu were 39 tonnes and 74 tonnes respectively.

Below is a table outlining the energy consumption, water utilisation and packaging material used by the Group during the reporting period, as compared with the data recorded in 2014, 2015, 2016 and 2017.

Energy Consumption, Water Utilisation and Packaging Material Used	Total tonnes in 2017	Tonnes/ Revenue (HKD1,000 million) in 2017	Total tonnes in 2016	Tonnes/ Revenue (HKD1,000 million) in 2016	Total tonnes in 2015	Tonnes/ Revenue (HKD1,000 million) in 2015	Total tonnes in 2014	Tonnes/ Revenue (HKD1,000 million) in 2014
Heyuan Production Plant								
Electricity (kWh)	**100,992,658**	**35,079,075**	91,205,623	40,589,952	90,905,585	36,537,615	89,012,950	34,065,423
Water (Tonne)	**1,362,932**	**473,405**	1,145,386	509,740	1,414,773	568,639	1,251,385	478,907
Carton boxes (Tonne)	**1,075**	**373**	928	413	1,118	449	973	372
Polyfoam trays (Tonne)	**1,148**	**399**	907	404	999	402	825	316
Chengdu Production Plant								
Electricity (kWh)	**1,158,672**	**402,456**	–	–	–	–	–	–
Water (Tonne)	**34,054**	**11,828**	–	–	–	–	–	–
Carton boxes (Tonne)	**39**	**14**	–	–	–	–	–	–
Polyfoam trays (Tonne)	**74**	**26**	–	–	–	–	–	–
Hong Kong Office								
Electricity (kWh)	**168,579**	**58,555**	117,330	52,216	153,859	61,840	154,891	59,277
Water (Tonne)	**108**	**38**	96	43	88	35	90	34

Measures to Reduce Energy Consumption and Water Utilisation

As at 31 December 2017, 1,000 T8 and T5 light bulbs had been phased-out and replaced with LED lights. Long-term use of wastewater from the production process was collected and reused in the toilet flushing system, thus the amount of tap water is reduced. In 2017, an investment of HK$936,700 in the transformation of the water loop treatment system at the Heyuan plant which was used to treat the waste water and recycling. It reduced the annual discharge of 8,500 tonnes of water utilisation.

Environmental Education

The headquarters office in Hong Kong and the production plant in Heyuan are committed to promoting green office. In the same year, the headquarters successfully passed an audit to drive carbon reduction by adopting a series of green office best practice, and the "Green Office Label" was awarded by the World Green Organisation.

Besides the "Green Office Label", the Hong Kong office was also accredited with the "Long Term Participation Award" by the HSBC Living Business Awards 2017 for its carbon reduction efforts throughout the years. In the Hong Kong office, the consumption level of electricity is announced on a monthly basis, in order to enhance the awareness of energy saving among colleagues.

The Heyuan plant held the green cycling activities every year to promote public awareness on the concept of low-carbon transport.

Recognition

The Group received recognition for its efforts in environmental protection in 2017. BOEVx was awarded with the "Green Office Label" by the World Green Organisation. The Hong Kong office was also presented with a "Long Term Participation Award" by the HSBC Living Business Awards Programme[1], to recognise years of efforts on environmental protection.

SOCIAL

Employment

The Group strictly observes the labour law in Hong Kong and the PRC. It is the policy of the Company to maintain a working environment that complies with the Race Discrimination Ordinance, Sex Discrimination Ordinance, Disability Discrimination Ordinance and the Family Status Discrimination Ordinance of the Ordinance and Code of Practice.

The Group provides remuneration, welfare and fringe benefits to employees comparable to the market standard. Remuneration, salary and bonus distribution are determined with reference to a performance-linked scale. When it comes to annual reviews, factors such as the Company's financial performance, business prospects, individual performance, market rates and inflation rate are taken into consideration to decide the rate and scale.

In 2017, the turnover rates for Hong Kong, the PRC and Overseas staff were 12.5%, 29.5% and 0% respectively.

During the year, there was no significant reported case of non-compliance with the relevant laws and regulations in Hong Kong, the PRC and Overseas.

1 The HSBC Living Business Awards Programme is supported by the Business Environmental Council, The Hong Kong Council of Social Service and the Hong Kong Institute of Human Resources Management. The programme is open to all SMEs' in Hong Kong.

Health and Safety

The Group's policy on health and safety is to comply fully with local government regulations, as stipulated in the law of prevention of occupational disease《中華人民共和國職業病防治》and fire prevention in the PRC《中華人民共和國消防法》, and to maintain a healthy and safe working environment for all employees, including the plant and systems of work, and to provide such information, instruction, training and supervision as they need. The production plant in Heyuan has successfully renewed its OHSAS18001 with Health and Safety accreditation. The production plant in Chengdu is accredited with its OHSAS18001 in 2017.

In 2017, there is no work-related fatality in the Group and no injury case was reported among Hong Kong employees. The factory recorded 35 (2016: 31) injury cases with 563 (2016: 325) lost days due to work injuries. Every injury case underwent a detailed review and evaluation, with precautionary measures put in place to avoid a repeat occurrence. Extra training was conducted with the parties involved.

The Group understands that natural disasters and accidents are unavoidable, and our management aims to mitigate any damage during mishaps. An emergency and fire drill, and fire precautionary training are conducted once a year in both the Hong Kong office and the production plant. First-aid training is provided to staff and workers. Training in safe handling of chemicals is also conducted for related workers on the production floors. In the production plant, a patrolling team is responsible for carrying out audits regarding workplace efficiency, effectiveness, and safety measures.

In addition to workplace safety, a healthy lifestyle is promoted to all employees. Talks on health & wellness and a variety of activities related to sports and social service are arranged for employees' participation. The aim of these activities is to achieve a sustainable work-life balance.

Workforce and Turnover Rate

Age	2017 Hong Kong	2017 PRC	2017 Overseas	2016 Hong Kong	2016 PRC	2016 Overseas	2015 Hong Kong	2015 PRC	2015 Overseas
Male									
18 – 45	**73**	**1,200**	**13**	77	954	14	87	905	15
46 – 65	**35**	**43**	**21**	31	42	10	33	25	10
Turnover rate	**12.2%**	**29.5%**	**0%**	12.7%	27.6%	0%	14%	22.7%	0%
Female									
18 – 45	**27**	**3,741**	**8**	24	3,488	10	30	3,911	11
46 – 65	**19**	**286**	**7**	17	312	6	18	128	6
Turnover rate	**13.2%**	**29.5%**	**0%**	18%	31.8%	11.8%	10%	19.6%	6%
Employment Type									
Staff	**154**	**948**	**49**	149	770	40	168	699	42
Workers	**0**	**4,322**	**0**	0	4,026	0	0	4,270	0

Development and Training

	2017 Total Training Hours	2017 Total Participants	2017 Total Headcounts	2017 Average Training Hours per Staff Member	2016 Total Training Hours	2016 Total Participants	2016 Total Headcounts	2016 Average Training Hours per Staff Member	2015 Total Training Hours	2015 Total Participants	2015 Total Headcounts	2015 Average Training Hours per Staff Member
HK Staff												
Male	**238**	**58**	**42**	**5.7**	332	207	149	2.2	795	300	168	4.7
Female	**206**	**70**	**36**	**5.7**								
PRC Staff												
Male	**7,008**	**1,398**	**578**	**12.1**	5,274	2,993	770	6.8	3,173	689	699	4.5
Female	**3,725**	**914**	**370**	**10.1**								
PRC Workers												
Male	**7,616**	**1,355**	**665**	**11.5**	19,312	6,886	4,026	4.8	20,364	4,262	4,270	4.8
Female	**20,250**	**5,950**	**3,657**	**5.5**								
Total												
Male	**14,862**	**2,811**	**1,285**	**11.6**	24,918	10,086	4,945	5.0	24,332	5,251	5,137	4.7
Female	**24,181**	**6,934**	**4,063**	**6.0**								

Development and Training

The Group values its employees and is committed to providing an ideal workplace in which its staff members may grow and develop. In 2017, the Group conducted a series of training sessions for staff and workers.

The Group's policy is to ensure that all employees achieve personal growth in their careers, and training is therefore encouraged. This is usually held during working hours, so that employees need not sacrifice personal time for training. A flexible work pattern may be scheduled for Hong Kong staff members working in the production plant if they need to pursue further studies.

Training covers a wide range of topics including operational skills, craftsmanship, display technology, quality standards, environmental matters, health and safety and soft management skills. Senior managerial staff members are usually invited to be technical instructors. External coaches are employed for specific trainings on soft management skills. In 2017, external coaches were employed to conduct an Outward Bound training for the engineering staff. The training aims at fostering personal development, teamwork, problem solving, and interpersonal skills.

Labour Standards

The Group complies with and observes the respective Labour Laws and Regulations in its operating countries. As a responsible employer, the following principles are strictly enforced:

- No child labour
- Ensure that wages comply with or exceed the minimum legal requirements of the country where employees are based
- Overtime practice is based on a voluntary pattern, no forced labour is allowed
- Respect for the opinions of general employees and the labour union
- Formal complaint channels are established and are regularly promoted to employees
- Equal employment opportunities – employment of disadvantaged employees and diversity and inclusion are encouraged in the workplace
- Harassment and abuse – these are actively discouraged in any form, to or among all employees
- Protection of privacy and personal data at work

All potential applicants are required to complete the Company's Employment Application Form, where personal data such as, names, contact details, ID numbers, etc. will be provided by the applicants. Human Resources Department will then reference check the ID cards to ensure that they meet the minimum age standard, i.e. 18 years or above.

People Caring

The headquarters office in Hong Kong was presented with the Certificate of Merit in the Caring for People category in the HSBC Living Business Awards 2017. The Award recognises the Group's outstanding performance in aspects of staff training and development, communications, equal opportunity, staff welfare, work-life balance, family-friendly practices, occupational health & safety and supply chain management. The Group provided all-round attention in the above areas, and performed exceptionally well in organizing work-life balance activities for staff and showing flexible treatment for staff members who need special care or to cope with family issues.

The Heyuan plant organized a series of fundraising and warming activities in 2017 to provide assistance to the needy staff.

Supply Chain Management

The Group takes a collaborative approach to supply chain sustainability management, as it views its suppliers as part of an interdependent ecosystem.

In 2017, the Group took the initiative to evaluate its suppliers' social responsibility performance. Both material suppliers and logistics service vendors were included in an evaluation distribution list. Completed questionnaires helped the Group to understand and evaluate the performance of its suppliers and vendors in the aspects of:

- Work hours
- Child labour
- Forced labour
- Health and safety
- Environmental concerns
- Corporate social responsibility

Table of Distribution and Response Status

	Number	Percentage (%)
Total No. of major suppliers for manufacturing operations	92	–
Total No. of major suppliers questionnaires sent	92	100
Total No. of completed questionnaires returned	74	80

Table of Results

Rating	Number	Percentage (%)
Outstanding	49	66
Above Average	20	27
Average	5	7
Need Improvement	0	–
Below Standard	0	–
Total	74	100

Distribution of Suppliers

Suppliers are divided into material suppliers and logistics service vendors. Certain material suppliers are requested to sign a declaration declaring that their packing material and Bill of Material (BOM) contains no hazardous substance. There was no reported case of violation of the declaration by any of our suppliers in the reporting period.

Suppliers by Geographical Region

	PRC	Asia	Europe	United States
Material Suppliers	328	70	31	19
Logistics Service Vendors	6	3	6	1

Selection and Evaluation of Suppliers

The Group selects suppliers and purchases materials and/or services from suppliers and vendors using three methods, namely, price comparison, bidding and sentinel procurement. Audits of suppliers and vendors are performed on a regular basis. Results are compiled for review by the Supplier Quality Team and are approved by the department head of Quality.

Criteria for audit include:

- General operation and workforce condition
- Quality qualification
- Quality system training
- Inspection procedures for quality systems
- Handling procedures for customer complaints
- Calibration
- Material suppliers control and handling procedures
- Production process control and inspection
- Past performance record

Service Vendors

The Logistics Department screens and selects service vendors by considering of the following factors:

- Company background – financial stability, reputation and global network
- Pricing and competitiveness
- Services – performance track record, efficiency and customer service
- Environmental performance – for instance, most of vendors use trucks compliant with Euro IV and V standards

Product Responsibility

The Group has no recall on products sold or shipped due to safety and health reasons in 2017. There are average 117 cases and 106 cases per month of automotive quality enquiries in 2016 and 2017.

Safety is always the core of the Group quality policy. To pursue such policy, the Group is qualified by International Standard: ISO 14001 and QC 080000. With these standards, the Group has developed an intensive system, to ensure no harmful substances (dangerous material lists from RoHS/REACH) going into BOEVx finished goods. As a result, there is no concerned recall in 2017 record.

As one of major automotive component suppliers, the Group takes responsibility for providing customers with quality and completed after-sale services. Such responsibility covers 8-discipline reporting (8D), customer complaint review meeting (CCR) and continuous improvement plan (CIP). With 8D approach, the negative impact from defects is quickly limited by containment action (which is mostly defined in 48 hours). With weekly CCR, "cause and action" will be fully consolidated across departments like Production, Process and Design. Furthermore, to achieve reject rate in PPM (parts per million) level, CIP is carried out quarterly with the involvement of the senior management.

The Group's prime objective is to provide high quality products that fully conform to their requirements and specifications. This commitment is fundamental to all work

undertaken and is closely observed by all members of the Group in their daily activities. All products must strictly comply with the Group's policy of operating a Quality Management System that fully meets the requirements of ISO 9001 and ISO/TS 16949 for automotive products and customer requirements for supplementary standards. This standard stipulates all processes from product development to completion of production and to after-sale services. In addition, Hazardous Substance Process Management is in place where procedures and related processes have been assessed and confirmed to be compliant with QC 080000. The production plant in Heyuan is accredited with ISO 14001, ISO 9001, ISO/TS 16949, QC 080000 and OHSAS 18001 certifications. The production plant in Chengdu is accredited with ISO 14001, QC 080000 and OHSAS 18001 certifications. In addition, the production plant in Chengdu has already upgraded its ISO/TS 16949 to IATF 16949 (the latest version). The production plant in Heyuan will also get the IATF 16949 in June 2018.

To ensure stringent quality management, the Group's Incoming Quality Control Team screens the incoming materials by sampling scheme. Only good quality materials that meet the requirements are accepted for the production process. Similarly, finished goods go through a stringent quality check before being passed to the finished goods warehouse. The Quality Department and sales people also provide comprehensive service ranging from failure analysis and 8D reporting to production and process improvement when handling customer enquiries.

Protection of Intellectual Property Rights

The Group is devoted to respect the concept of intellectual property which include but not limited to patents, product information, technology, product design, outlook, trademarks, software, trade secrets, images, sound records, pictures and etc. The Group possesses the patent, copyright and trademark and related rights, or obtain the authorization in legitimate ways. They are protected by international treaties about intellectual property. Without the permission of the Group, other parties cannot possess, use, reproduce, record or display any related intellectual property which belongs to the Group. Otherwise the Group will consider to take legal actions.

Data Protection and Privacy Policies

In order to gain trust from our stakeholders, the security of their personal information is important to us. The Group acknowledges the importance in handling the personal information carefully.

The Group understands stakeholders use their personal information for different purpose. Therefore, it is important for us to handle this information with care. To protect this information from any unauthorised access, accidental loss and destruction, the Group adopts appropriate security measures in the transfer and storage of the personal data.

Anti-Corruption

The Group places emphasis on ensuring all business is conducted in accordance with relevant local laws and regulations, with policies in place to safeguard against corruption activities. Such measures are preventive, detective and punitive in nature.

Policies include:

- Code of conduct, which covers conflict of interests and acceptance of advantages / benefits
- Whistle-blowing policy
- Entertainment policy
- Travel policy

In addition, the Staff Handbook has stipulated rules and regulations for employees. The clear layout of policies can prevent arguments and disputes from employees. To date, no established case of corrupt practices has been uncovered.

Community Involvement

The Group is resolved to cultivate good relationships and focusing on needy areas within the community. The BOEVx Social Service Team has enjoyed a successful partnership with ELCHK Sheung Tak Integrated Youth Service Centre ("Sheung Tak") since 2013, serving youngsters from ethnic groups such as Indians and Pakistanis.

In 2017, the BOEVx Social Service Team engaged in a new mentorship programme themed "Family Assistance". Family support plays an important role for the growth development of youngsters. Volunteers and ethnic families established a trust relationship. Volunteers brought the families out of the community, expand the network. Hence, the ethnic families could further understand and make good use of the community resources.

The project demanded a great deal of participation and effort from the volunteers who guided the 6 ethnic families throughout the process. A series of visitations were provided by volunteers for the families to enhance their understanding of Hong Kong, while the role of the social workers of Sheung Tak were to organize Friday support group activities every two weeks to provide personal development, parental communications and community information sharing to ethnic mothers.

The BOEVx Social Service Team cares deeply about the development and prospects of this group of ethnic young people and their family development. Looking into the future, it is committed to implementing more programs for the youth of ethnic minorities in a concerted effort with Sheung Tak.

Awards and Accolades

It was an honour for the BOEVx Social Service Team to be presented with "The 8th Hong Kong Outstanding Corporate Citizenship Logo – Volunteer Category" by the Hong Kong Productivity Council in 2017.

The Group provided sustainability in the community services. It will continue to encourage employees and their families to take part in the Group's social service activities, and we anticipate the BOEVx Social Service Team will expand on its own strengths and achieve continuous improvement.

Participation in Charity and Work-Life Balance Activities

The Group is involved in a variety of events that combine charity and sports. In 2017, the Group sponsored colleagues to participate in:

- Hong Kong Streetathon @ Kowloon
- Standard Chartered Marathon
- Oxfam Trailwalker
- Heyuan International Marathon

In China, we also organized colleagues to visit disabled families and children and donate money on behalf of the Company. The Heyuan plant held donation of clothing activity, which donated clothes to underprivileged people.

The Group encourages work-life balance, yoga classes were organised in the Hong Kong office and Chengdu plant to encourage healthy living, and attracted many colleagues to join, which enhanced the cohesion of the Group.

Scholarship

BOEVx has been sponsoring a scholarship for the Department of Electronic and Computer Engineering, Hong Kong University of Science and Technology, for 9 consecutive years. Since 2012, the Heyuan plant established a school-enterprise cooperation with the Heyuan Polytechnic to enrol students in "Specialized BOEVx Class". A scholarship is sponsored for outstanding students.

Board of Directors and Senior Management

DIRECTOR'S BIOGRAPHICAL INFORMATION

YAO Xiangjun

aged 41, was appointed as an Executive Director and the Chairman of the Company in April 2016. Mr. Yao is the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Yao graduated from Beijing Technology and Business University with a master degree in management. He is a China Certified Public Accountant. Since 2001, Mr. Yao has worked as the head of the finance department, a finance director and the head of corporate planning center, the chief strategy officer, a director and an associate chief executive officer of the smart system business group of BOE Technology Group Co., Ltd ("BOE"), a deputy finance director of Beijing BOE Optoelectronics Technology Co., Ltd. (a subsidiary of BOE) and a finance director of Hefei BOE Optoelectronics Technology Co., Ltd. (a subsidiary of BOE). Mr. Yao is a member of the executive committee of BOE, a senior vice president, a joint chief operating officer and the chief executive officer of the smart system business group of BOE. Mr. Yao is also a president of BOE Optoelectronics Technology Co., Ltd., Beijing BOE Vision-electronic Technology Co., Ltd., Beijing BOE Multimedia Science & Technology Co., Ltd. and Beijing Intelligence Science & Technology Co., Ltd.

KO Wing Yan, Samantha

aged 38, was appointed as an Executive Director and the Chief Financial Officer of the Company in October 2014. Ms. Ko was also appointed as the Chief Executive Officer of the Company in March 2015 and was redesignated to a Co-chief Executive Officer of the Company in April 2016. Ms. Ko is a member of the Remuneration Committee of the Company and a director of various subsidiaries of the Group. Ms. Ko holds a Bachelor Degree in Economics and Mathematics from Mount Holyoke College, U.S.A., and a Master Degree in Finance from the Imperial College, London. She has over 7 years of experience in banking and has extensive experience in the securities and capital markets, and was a director of global markets — structured credit and fund solutions of HSBC until August 2009. Before joining HSBC, Ms. Ko served at Morgan Stanley (Hong Kong) and JP Morgan Securities Limited (London). Ms. Ko is the daughter of Mr. Ko Chun Shun, Johnson who is a substantial shareholder of the Company.

SU Ning

aged 37, was appointed as an Executive Director and a Co-chief Executive Officer of the Company in April 2016. Mr. Su is a member of the Nomination Committee of the Company and a director of various subsidiaries of the Group. Mr. Su graduated from the Graduate School of Chinese Academy of Sciences with a master degree in engineering. Since 2005, Mr. Su has served as a deputy division chief in the module technical department, a deputy department head in the new application business department, the division chief, a deputy general manager in the application business department of Beijing BOE Optoelectronics Technology Co., Ltd. (a subsidiary of BOE). Mr. Su is the general manager of the application business department of Beijing BOE Display Technology Co., Ltd. (a subsidiary of BOE).

YANG Xiaoping

aged 39, was appointed as a Non-executive Director of the Company in April 2016. Ms. Yang graduated from The University of International Business and Economics with a master degree in business administration. She has 15 years of experience in financial management. Since joining BOE Group in 2002, Ms. Yang has acted as the head of financial planning department, the head of accounting and taxation centre and the head of budgeting centre of BOE. She is a vice president and a deputy financial controller of BOE. Ms. Yang is also a director or a supervisor of a number of subsidiaries of BOE.

DONG Xue

aged 38, was appointed as a Non-executive Director of the Company in April 2016. Mr. Dong studied Chemical Engineering (Materials) in Tsinghua University and obtained a master degree in Engineering. Since joining BOE Group in 2003, Mr. Dong had acted as an assistant of department head, the department head of application development department, a deputy director of optoelectronics technology development centre department, the head of the research and development centre for mobile products of Beijing BOE Optoelectronics Technology Co., Ltd. (a subsidiary of BOE). He is a senior vice president and the chief technical officer for display panel business of BOE.

YUAN Feng

aged 40, was appointed as a Non-executive Director of the Company in April 2016. Mr. Yuan graduated from Tsinghua University with a master degree in business administration. Since joining BOE Group in 2003, Mr. Yuan had acted as a deputy head of strategic planning department and the secretary office manager of BOE and the general manager of Beijing BOE Sales Co., Ltd. (a subsidiary of BOE). He is a vice president and the chief marketing officer of BOE.

FUNG Yuk Kan, Peter

aged 51, was appointed as an Independent Non-executive Director of the Company in June 2016. Mr. Fung is the Chairman of the Audit Committee and the Remuneration Committee, and a member of the Nomination Committee of the Company. Mr. Fung was trained and qualified in KPMG London before returning to KPMG Hong Kong in 1993. Since his return Mr. Fung has travelled regularly into China to lead different types of China projects, including Initial Public Offerings and due diligence exercises for merger and acquisitions. Mr. Fung became a partner in October 2000. Later in 2006 he moved to and started stationing in Beijing. In the past two decades, he has been in many positions within KPMG, including the partner in-charge of large accounts, regional head of audit and regional head of business development.

Mr. Fung's last position before retirement is the Global Chair of KPMG Global China Practice ("GCP"). The GCP is a community of professionals in China and across the globe with a total focus on inbound and outbound China businesses and assists Chinese businesses with their globalisation strategy and helps multinational companies enter or expand into the China market. In this role, he regularly meets with market players to discuss the continuous development of China and issues confronting executives from different businesses. He also writes publications and appears in conferences and events as presenters/panelists to share his experience and views on these matters.

Mr. Fung is a fellow member of the Institute of Chartered Accountants of England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. He obtained a bachelor of science in Economics from London School of Economics and Political Science in 1988.

Board of Directors and Senior Management

CHU Howard Ho Hwa

aged 53, was appointed as an Independent Non-executive Directors of the Company in June 2016. He is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Chu has over 15 years of business experience and over 9 years of experience in corporate governance. Mr. Chu is a partner of Go Capital Limited which is a private equity firm based in Hong Kong and Shanghai. From 2012 to 28 February 2018, Mr. Chu was the chief executive officer of mReferral Corporation (HK) Limited which is a leading mortgage referral company and is a joint venture of Midland Holdings Limited and Cheung Kong (Holdings) Limited. From March 2012 to June 2012, he was the chief financial officer of China Smart Electric Co. Ltd. From July 2009 to October 2011, he was the chief financial officer of Trony Solar Holdings Company Limited which is a publicly listed company on the Main Board of the Stock Exchange. From September 2010 to May 2012, he was an independent non-executive Director of China Kingstone Mining Holdings Limited which is a publicly listed company on the Main Board of the Stock Exchange. He has previously worked for Shanghai Century Acquisition Corporation, a company listed on the American Stock Exchange, and United Energy Group Limited, a company listed on the Stock Exchange. He was a director at ABN AMRO Asia Corporate Finance Ltd. and was also a director at the Hong Kong and Shanghai Banking Corporation Ltd. From June 2012 to June 2015, he was an independent non-executive Director of Weichai Power Co. Ltd. which is a publicly listed company on the Main Board of Stock Exchange. He resigned as an independent non-executive director of Directel Holdings Limited which is listed on the Growth Enterprise Market of the Stock Exchange in June 2016. He obtained a master degree of business administration from the Columbia University and a bachelor degree of science from the University of Rochester in 1990 and 1986 respectively.

HOU Ziqiang

aged 80, was appointed as an Independent Non-executive Director of the Company in March 2005. He is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Hou graduated from Peking University in 1958 with a Bachelor's degree in Physics. From 1993 to 1997, Mr. Hou was a Director of the Institute of Acoustics of the Chinese Academy of Sciences. From 1988 to 1993, Mr. Hou was a Secretary General of the Chinese Academy of Sciences.

SENIOR MANAGEMENT'S BIOGRAPHICAL INFORMATION

LAM Cheuk Yin, Kenneth

aged 43, is the Group Financial Controller and Company Secretary of the Group. He holds a Bachelor of Business Administration (Accountancy) from the City University of Hong Kong, and is an Associate Member of the HKICPA. He joined the Group in July 2005.

PANG Tien Kin, Peter

aged 37, is the Financial Controller (PRC) of the Group. He holds a Bachelor of Business Administration (Accountancy) from the City University of Hong Kong, and is a Member of the HKICPA and a Fellow Member of the ACCA. He joined the Group in September 2017.

FUNG Yeuk Keung

aged 63, is the General Manager responsible for Passive Manufacturing of the Group. He conducted his PhD research study in the Liquid Crystal Institute of Kent State University and obtained a Master and a Doctorate degree in Physics from the same university. Dr. Fung joined the Group in 1995 and resigned in 2006. He rejoined the Group in November 2009.

CHENG Wei

aged 36, the Assistant General Manager of the Group and the Executive Vice General Manager of the Chengdu BOE Vehicle Display Technology Co., Ltd. He holds a degree in Information Engineering from the Beijing Institute of Technology, China and a Master's degree in Software Engineering from the Huazhong University of Science and Technology, China. Before joining the Group, Mr. Cheng served at BOE Group and has more than 13 years of TFT module production and operational experience. He joined the Group in August 2017.

PARK Soo Bin, James

aged 47, is the Chief Technology Officer, head of Technical Group. He holds a Bachelor of Physics degree from the Sogang University in South Korea. He joined the Group in October 2006.

NG Ah Loi, Lloyd

aged 50, is the Assistant General Manager – Head of Quality of the Group. He holds a Bachelor's degree in Applied Physics from the City University of Hong Kong. Mr. Ng has over 12 years of experience in automotive quality assurance management. He joined the Group in August 2017 .

LO Pak Chi, Patrick

aged 44, is the Assistant General Manager responsible for TFT & Touch Panel Manufacturing of the Group. He holds a Bachelor's degree in Applied Physics from the Hong Kong Baptist University. He joined the Group in May 1998.

NG Siu Keung, Ricardo

aged 55, is the Senior Manager – Information Service, Facilities, Shipping & External Affairs (PRC) of the Group. He is the 8th Committee Member of Yuancheng District, Heyuan City of the Chinese People's Political Consultative Conference. Mr. Ng holds a Master's degree in Business Administration from the International University of America. He joined the Group in September 2006.

MA Chung Man, Alex

aged 42, the Assistant General Manager – Business Management, of the Group. He holds a degree in Industrial and Manufacturing Systems Engineering from the University of Hong Kong and a Master's degree in System Engineering and Engineering Management from the Chinese University of Hong Kong. He joined the Group in October 1998.

TAN King Ho, Tommy

aged 43, is the Senior Manager – Sales & Marketing, responsible for the Industrial business of the Group, and the Director of Varitronix (Japan) Limited. He holds a Master's degree in Professional Japanese from the Hong Kong Polytechnic University. He joined the Group in April 2006.

WONG Wing, Alex

aged 56, is the Senior Manager – Purchasing of the Group. He holds a Diploma in Electronics & Electricity. He joined the Group in July 1994.

Corporate Governance Report

The Company is committed to achieving and maintaining a high standard of corporate governance. The Board (the "Board") of Directors (the "Directors") recognises that such commitment is essential in upholding the accountability and transparency and to achieve a balance of interests between the shareholders, customers, creditors, employees as well as other stakeholders.

CORPORATE GOVERNANCE PRACTICES

The corporate governance standards of the Company are built on the principles of independence, accountability, transparency and fairness. The Company has adopted and complied with the code provision set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Board has taken actions and measures to ensure that the Company is in all aspects in strict compliance.

In the opinion of the Directors, the Company has complied with the code provisions of the CG Code throughout the year ended 31 December 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Following specific enquiry by the Company, all Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the year under review.

BOARD OF DIRECTORS

The Company benefits from the professional management expertise of its Directors. Brief biographies of the Directors are set out in the "Board of Directors and Senior Management" section in this Annual Report. The professional management expertise of the Directors ensures that the Board has the capabilities of sustaining the Company's continued success.

As at 31 December 2017, the Board comprises three Executive Directors, three Non-executive Directors and three Independent Non-executive Directors.

Executive Directors:	Mr. Yao Xiangjun *(Chairman)*
	Ms. Ko Wing Yan, Samantha *(Co-Chief Executive Officer and Chief Financial Officer)*
	Mr. Su Ning *(Co-Chief Executive Officer)*
Non-executive Directors:	Ms. Yang Xiaoping
	Mr. Dong Xue
	Mr. Yuan Feng
Independent Non-executive Directors:	Mr. Fung, Yuk Kan Peter
	Mr. Chu, Howard Ho Hwa
	Mr. Hou Ziqiang

All the Independent Non-executive Directors meet the guidelines for assessment of independence as set out in Rule 3.13 of the Listing Rules.

The Board meets at least 4 times a year with additional meetings arranged when necessary to review the financial performance, material investments and other matters of the Group that require the resolution of the Board.

During the financial year ended 31 December 2017, a total of 12 Board meetings and 1 annual general meeting ("2017 AGM") were held and the attendance of each Director is set out as follows:

	Number of meetings attended in 2017				
Name	**Board**	**2017 AGM**	**Remuneration Committee**	**Nomination Committee**	**Audit Committee**
Executive Directors:					
Mr. Yao Xiangjun	12/12	1/1	1/1	1/1	N/A
Ms. Ko Wing Yan, Samantha	12/12	1/1	1/1	N/A	N/A
Mr. Su Ning	12/12	1/1	N/A	1/1	N/A
Non-executive Directors:					
Ms. Yang Xiaoping	12/12	1/1	N/A	N/A	N/A
Mr. Dong Xue	12/12	1/1	N/A	N/A	N/A
Mr. Yuan Feng	12/12	1/1	N/A	N/A	N/A
Independent Non-executive Directors:					
Mr. Fung, Yuk Kan Peter	12/12	1/1	1/1	1/1	2/2
Mr. Chu, Howard Ho Hwa	12/12	1/1	1/1	1/1	2/2
Mr. Hou Ziqiang	12/12	1/1	1/1	1/1	2/2

The Directors have no financial, business, family or other material/relevant relationships among the members of the Board except that:

(i) Mr. Ko Chun Shun, Johnson who is a substantial shareholder of the Company, is the father of Ms. Ko Wing Yan, Samantha; and

(ii) Mr. Yao Xiangjun is a member of the executive committee of BOE Technology Group Co., Ltd ("BOE"), a senior vice president, a joint chief operating officer and the chief executive officer of the smart system business group of BOE. Mr. Yao is also a president of BOE Optoelectronics Technology Co., Ltd., Beijing BOE Vision-electronic Technology Co., Ltd., Beijing BOE Multimedia Science & Technology Co., Ltd. and Beijing Intelligence Science & Technology Co., Ltd. Mr. Su Ning is the general manager of the application business department of Beijing BOE Display Technology Co., Ltd. (a subsidiary of BOE). Ms. Yang Xiaoping is a vice president and a deputy financial controller of BOE. Ms. Yang is also a director or a supervisor of a number of subsidiaries of BOE. Mr. Dong Xue is a senior vice president and the chief technical officer for display panel business of BOE. Mr. Yuan Feng is a vice president and the chief marketing officer of BOE.

In the Board's opinion, these relationships do not affect the Directors' independent judgment and integrity in executing their roles and responsibilities.

Professional Development

Pursuant to A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all Directors have participated in continuous professional development by attending training course and/or referring materials on the topics related to corporate governance and regulations.

Responsibilities of the Board

The Board has the collective responsibility for leadership and control of, and for promoting the success of, the Company by directing and supervising the Company's affairs. The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Company. It also decides on matters such as interim and annual results, major transactions, director appointments or reappointments, and dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the management.

Corporate Governance Functions

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of the Directors and senior management of the Group, the Company's policies and practices on compliance with legal and regulatory requirements, etc.

The Board held meetings from time to time whenever necessary. At least 14 days notice of regular Board meetings is given to all Directors and they can include matters for discussion in the agenda as they think fit. The agenda accompanying board papers are sent to all Directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the Directors to review the documents.

Minutes of every Board meeting are circulated to all Directors for their perusal and comments prior to confirmation of the minutes. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary of the Company with a view to ensuring that board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

CHAIRMAN AND CO-CHIEF EXECUTIVE OFFICERS

The roles of the Chairman of the Board, Mr. Yao Xiangjun and Co-chief Executive Officers, Ms. Ko Wing Yan, Samantha and Mr. Su Ning are separated, with a clear division of responsibilities. The Chairman of the Board is responsible for formulating corporate strategies and overall business development planning. Co-chief Executive Officers' duty is to oversee the execution of daily business activities. The division of responsibilities is to ensure a balance of power and authority.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

All Non-executive Directors have been appointed for a term of three years and all Independent Non-executive Directors have been appointed for a fixed term expiring on 31 December 2018 or such other date as agreed by the Independent Non-executive Directors. All Directors are subject to retirement by rotation at least once every three years under the Company's Bye-laws.

BOARD COMMITTEES

Remuneration Committee

The remuneration committee (the "RC") is responsible for setting and monitoring the remuneration policy for all Directors and senior management of the Group. The RC comprises Mr. Fung, Yuk Kan Peter (Chairman of the RC), Mr. Yao Xiangjun, Ms. Ko Wing Yan, Samantha, Mr. Chu, Howard Ho Hwa and Mr. Hou Ziqiang. Among the 5 members of the RC, 3 members are Independent Non-Executive Directors. The terms of reference of the RC are available at the websites of the Company and the Stock Exchange.

The roles and functions of the RC include consulting the Chairman of the Board about their remuneration proposals for other Executive Directors, making recommendation to the Board on the Company's remuneration policy and structure for all Directors' and senior management of the Group. The RC has adopted the approach under B.1.2(c)(ii) of the CG Code to make recommendations to the Board on the remuneration packages of individual Executive Director and senior management of the Group.

The Company's remuneration policy is to link remuneration packages for Executive Directors with the achievement of annual and long-term performance goals. By providing competitive and performance-linked compensation, the Company seeks to attract, motivate and retain key executives, which is essential to its long-term success.

1 meeting was held in 2017. During the meeting, the RC reviewed the Company's remuneration policy and fixed the remuneration packages for the Executive Directors and senior management of the Group. No change has been proposed to the remuneration policy and the Directors' remuneration. The number of RC meeting held during the year and record of individual attendance of members, on a named basis, at the meeting held is set out in section headed "BOARD OF DIRECTORS" above in this report.

Remuneration of Directors and Senior Management

The Directors' remuneration is set out in note 7 to the consolidated financial statements of this Annual Report.

The remuneration paid to the members of the senior management by bands in 2017 is set out below:

Remuneration Bands	Number of Individuals
HK$100,001 to HK$500,000	2
HK$500,001 to HK$1,000,000	7
HK$1,000,001 to HK$1,500,000	1
HK$1,500,001 to HK$2,000,000	1

Nomination Committee

The nomination committee (the "NC") comprises Mr. Yao Xiangjun (Chairman of the NC), Mr. Su Ning, Mr. Fung, Yuk Kan Peter, Mr. Chu, Howard Ho Hwa and Mr. Hou Ziqiang. Among the 5 members of the NC, 3 members are Independent Non-executive Directors. The terms of reference of the NC are available at the websites of the Company and the Stock Exchange.

The roles and functions of the NC include reviewing the structure, size and composition of the Board at least annually, making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting individuals nominated for directorship (if necessary), assessing the independence of the Independent Non-executive Directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for the Directors, in particular the Chairman of the Board and the Chief Executive Officer. New Directors are sought mainly through referrals. In evaluating whether an appointee is suitable to act as a Director of the Company, the Board will review the independence, experience and expertise of the appointee as well as personal ethics, integrity and time commitment of the appointee.

The Board adopted the board diversity policy (the "Board Diversity Policy") which to comply with the CG Code on board diversity. The Board Diversity Policy was adopted to ensure that diversity in its broadest sense continues to remain a feature of the Board. The NC's assessment of the candidates includes, but is not limited to, consideration of the relevant knowledge and diversity of backgrounds, skills, experience and perspectives that would complement the existing Board.

1 meeting was held in 2017. Issues concerning the structure, size and composition of the Board were discussed and reviewed. The number of NC meeting held during the year and record of individual attendance of members, on a named basis, at the meeting held during is set out in section headed "BOARD OF DIRECTORS" above in this report.

Audit Committee

The audit committee (the "AC") comprises 3 Independent Non-executive Directors: Mr. Fung, Yuk Kan Peter (Chairman of the AC), Mr. Chu, Howard Ho Hwa and Mr. Hou Ziqiang. The AC is responsible for appointment of external auditors, review of the Group's financial information and oversight of the Group's financial reporting system, risk management and internal control systems. It is also responsible for reviewing the interim and annual results of the Group prior to recommending them to the Board for approval. It meets regularly to review financial reporting and internal control matters and to this end has unrestricted access to both the Company's internal and external auditors. The terms of reference of the AC are available at the websites of the Company and the Stock Exchange.

The AC held 2 meetings in 2017, in which the Committee reviewed with management the accounting principles and practices adopted by the Group and discussed risk management, internal controls and financial reporting matters so as to ensure that an effective control environment is maintained. The number of AC meeting held during the year and record of individual attendance of members, on a named basis, at meetings held during is set out in section headed "BOARD OF DIRECTORS" above in this report.

The AC also made its recommendation to the Board that the external auditors should be reappointed and approved the remuneration and the terms of engagements of the external auditors.

The internal and external auditors have unrestricted access to the AC, which ensures that their independence remains unimpaired.

There are no disagreement between the Board and the AC on the selection, appointment, resignation or dismissal of the external auditors.

The AC meets and holds discussions with the Executive Directors and other senior management of the Group on the interim results, preliminary results announcement and annual reports. The AC reviews and discusses the management's report and representations with a review to ensure that the Group's consolidated financial statements and prepared in accordance with accounting principles generally accepted in Hong Kong. It also considers reports from the Company's external auditors, KPMG, on the scope and the outcome of their annual audit of the consolidated financial statements.

Accountability and Audit

Financial Reporting

The management provides such explanation and information to the Board and reports regularly to the Board on financial position and prospects of the business of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibilities (as set out in the Report of the Independent Auditor) for preparing the financial statements for each financial period with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Company's financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern and the Board has prepared the financial statements on a going concern basis. The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. The reporting responsibilities of KPMG are set out in the Report of the Independent Auditor on pages 47 to 52 of this Annual Report.

Internal Control and Risk Management

The Board has overall responsibility for evaluating and determining the nature and extent of the risks they are willing to take in achieving the Group's strategic objectives, overseeing the risk management and internal control systems including reviewing their effectiveness through the AC to ensure appropriate and effective risk management and internal control systems are in place. The Company has established an Internal Audit Department and the Risk Management Committee (the "RMC"). The RMC consists of representatives from operations departments, the Finance Department and the Internal Audit Department of the Company.

The AC assists the Board in meeting its responsibility for maintaining effective systems of risk management and internal control. The AC reviews all significant aspects of risk management and internal control, including financial, operational and compliance controls; the adequacy of resources, qualifications and experience, training programmes and budgets of the staff of the Group's accounting, internal audit, and financial reporting functions. It reviews the process by which the Group evaluates its control environment and its risk assessment process, and the way in which business and control risks are managed. These reviews and reports are considered by the AC before it makes its recommendation to the Board for approval of the annual consolidated financial statements.

In the meeting held in December 2017, the AC has reviewed the effectiveness of the risk management and internal control systems of the Group and considered the systems are effective and adequate.

Effective risk management is fundamental to the achievement of the Group's strategic objectives, and an enterprise risk management framework is in place to provide top-down and bottom-up approaches to identify, assess, mitigate and monitor key risks in a pro-active and structured manner.

The Company's management encourages a risk aware and control conscious environment, setting objectives, performance targets or policies for the management of key risks including strategic planning, business operations, acquisitions, investments, legal and regulatory compliance, expenditure control, treasury, environment, health and safety, and customer service. The Company has a well-established organisational structure with defined levels of responsibility and authority and reporting procedures. There are inherent limitations in any systems of risk management and internal control and accordingly the Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business of objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Executive Directors review operational and financial reports and key operating statistics and hold regular meetings with the management to review their reports.

Budgets are prepared annually by the management and are subject to review and approval by the Co-chief Executive Officers and then by the Executive Directors. Re-forecasts of operating results for the current year are prepared regularly, reviewed and approved by the Executive Directors.

The Group has established guidelines and procedures for the approval and control of expenditure. Operating expenditure is subject to overall budget control. Capital expenditure is subject to overall control within the approved budget of individual projects with more specific controls and approvals being required for overspending, unbudgeted expenditure and material expenditure within the approved budget. Regular reports of actual versus budgeted and approved expenditure are also reviewed.

The treasury function, overseeing the Group's investment and funding activities, regularly reports to the Executive Directors on the Group's cash and liquid investments, borrowings, outstanding contingent liabilities and financial derivatives commitments. The Board has reviewed and adopted a treasury policy governing the management of the financial risks of the Group (including interest rate risk, foreign exchange risk and liquidity risk) and the operational risks associated with such risk management activities.

The legal and company secretarial function reports to the Co-chief Executive Officers, and oversees, among other things, the Group's compliance of the Listing Rules and other legal and regulatory requirements.

The internal audit department reports to the AC of the existence and effectiveness of the risk management activities and controls in the operations of the Group. Using risk assessment methodology and taking into account the scope and nature of the Group's activities and changes in operating environment, Internal Audit prepares its yearly audit plan which is reviewed and approved by the AC. Internal Audit's reports on the Group's operations are also reviewed and considered by the AC. The scope of work on the Group performed by Internal Audit includes financial and operations review, recurring and unscheduled audits, fraud investigation, productivity and efficiency review and laws and regulations compliance review. Internal Audit follows up audit recommendations on implementation and the progress is reported to the AC.

With the assistance of Internal Audit, the Co-chief Executive Officers and the Executive Directors review, among other things, the profile of the significant risks and how these risks have been identified, evaluated and managed, the changes since the last semi-annual assessment in the nature and extent of significant risks, and the Group's ability to respond to changes in its business and the external environment, the scope and quality of management's ongoing monitoring of the risk management and internal control systems. In addition, they review the work of internal audit department and other assurance providers, the extent and frequency of communication of monitoring results to the AC which enables it to assess control of the Group and the effectiveness of risk management, any significant failing or weaknesses in internal control that have been reported, the necessary actions that are being taken promptly to remedy any significant failings or weaknesses, and the effectiveness of the Group's processes for financial reporting and Listing Rules compliance.

Reports from the external auditor on material non-compliance with procedures and significant internal control weakness, if any, are presented to the AC. These reports are considered and reviewed and the appropriate action is to be taken if required.

There are also procedures including pre-clearance on dealing in the Group's securities by designated Directors, notification of regular blackout period and securities dealing restrictions to Directors, and dissemination of information for specified purpose and on a need-to-know basis have been implemented to guard against possible mishandling of inside information within the Group.

Auditors' Remuneration

Total auditors' remuneration in relation to audit and non-audit services provided to the Group amounted to HK$4 million (2016: HK$4 million), of which a sum of HK$3 million (2016: HK$3 million) was paid to KPMG. Details of the external auditor's fees are set out in note 5(c) to the consolidated financial statements of this Annual Report.

Company Secretary

Mr. Lam Cheuk Yin, Kenneth was appointed as the Company Secretary of the Company in March 2017. The biographical details of Mr. Lam are set out under the section headed "Board of Directors and Senior Management" in this Annual Report.

According to the Rule 3.29 of the Listing Rules, Mr. Lam has taken no less than 15 hours of relevant professional training during the financial year ended 31 December 2017.

Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between the shareholders of the Company and the Board. The Company holds an annual general meeting ("AGM") every year, and may hold a general meeting known as an extraordinary general meeting ("EGM") whenever necessary.

– Right to convene EGM

Members of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition sent to the Company's registered office at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda (the "Registered Office") and its principal office at Units A – F, 35th Floor, Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong (the "Principal Office"), for the attention of the company secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

The written requisition must state the purposes of the general meeting, signed by the member(s) concerned and may consist of several documents in like form, each signed by one or more of those members.

If the requisition is in order, the company secretary of the Company will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered members. On the contrary, if the requisition is invalid, the members concerned will be advised of this outcome and accordingly, an EGM will not be convened as requested.

The notice period to be given to all the registered members for consideration of the proposal raised by the member(s) concerned at an EGM varies according to the nature of the proposal, as follows:

- At least 21 clear days' and not less than 10 clear business days' notice in writing if the proposal constitutes a special resolution of the Company, which cannot be amended other than to a mere clerical amendment to correct a patent error; and
- At least 14 clear days' and not less than 10 clear business days' notice in writing if the proposal constitutes an ordinary resolution of the Company.

– Right to put enquiries to the Board

Members of the Company do not generally have any right to put forward enquiries to the Board. There is no procedure set out in the Bermuda Companies Act 1981 or in the Bye-Laws of the Company available for any member to put forward an enquiry to the Board. A member of the Company may, of course, at any time write to the Board and it is up to the Board to decide whether or not to entertain any request made by a member of the Company.

Members of the Company who have enquiries about the above procedures or have enquiries to put to the Board may write to the company secretary of the Company at Units A – F, 35/F., Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong.

– Right to put forward proposals at shareholders' meetings

Member(s) of the Company holding (i) not less than one-twentieth of the total voting rights of all members having the right to vote at the shareholders' meeting; or (ii) not less than 100 members, can submit a written request stating the resolution intended to be moved at an AGM; or a statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at a particular shareholders' meeting.

The written request/statements must be signed by the member(s) concern and deposited at the Registered Office and the Principal Office, for the attention of the company secretary of the Company, not less than six weeks before the AGM in the case of a requisition requiring notice of a resolution and not less than one week before the shareholders' meeting in the case of any other requisition.

If the written request is in order, the company secretary of the Company will ask the Board (i) to include the resolution in the agenda for an AGM; or (ii) to circulate the statement for the shareholders' meeting, provided that the member(s) concerned have deposited a sum of money reasonably determined by the Board sufficient to meet the Company's expenses in serving the notice of the resolution and/or circulating the statement submitted by the member(s) concerned in accordance with the statutory requirements to all the registered members. On the contrary, if the requisition is invalid or the member(s) concerned have failed to deposit sufficient money to meet the Company's expenses for the said purposes, the member(s) concerned will be advised of this outcome and accordingly, the proposed resolution will not be included in the agenda for the AGM; or the statement will not be circulated for the shareholders' meeting.

The procedures for shareholders of the Company to propose a person for election as a director is posted on the Company's website.

INVESTOR RELATIONS

The Company attaches great importance to communicate with shareholders of the Company and a number of means, including regular group meetings and plant tours, are used to promote greater understanding and dialogue with investment community. This also includes the annual general meeting, the annual and interim reports, notices, announcements and circulars. Key executives maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's development.

The Group's website www.boevx.com contains an "Investor & Media Relations" section which offers timely access to the Company's press releases, financial reports and announcements.

The AGM is an important opportunity for communicating with shareholders. The Company's Chairman and Directors are available at the AGM to answer questions from shareholders of the Company.

– Change of Company Name

According to the circular published by the Company dated 27 April 2017, the Board proposed to change the English name of the Company from "Varitronix International Limited" to "BOE Varitronix Limited", and to adopt "京東方精電有限公司" as the secondary name in Chinese of the Company to replace "精電國際有限公司" which had been used for identification purpose only (the "Change of Company Name").

The Change of Company Name was approved by the shareholders of the Company at the annual general meeting of the Company held on 5 June 2017.

The Certificate of Incorporation on Change of Name and the Certificate of Secondary Name were issued by the Registrar of Companies in Bermuda on 28 June 2017, certifying that the Company had changed its name and was registered as "BOE Varitronix Limited" and was registered with the secondary name "京東方精電有限公司" on 6 June 2017. The Company had carried out all necessary filing procedures with the Companies Registry in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622, The Laws of Hong Kong).

Save as disclosed above, during the year ended 31 December 2017, there had been no significant change in the Company's constitutional documents.

Report of the Directors

The Directors have pleasure in submitting herewith their report together with the audited financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The Group is principally engaged in automobile and industrial display products and has monochrome display manufacturing capacity and TFT modules assembly capacity. Since its incorporation, the Company has been combining scientific and technological research, innovative product design, flexible product specifications and efficient manufacturing for many applications, including automotive components and industrial products, also providing complete display solutions for its customers. In addition to supplying standard products, the Group also provides tailor-made LCDs and modules for the specific needs of its customers. Particulars of the Company's principal subsidiaries set out in Note 13 to the financial statements of this Annual Report. Further discussion and analysis of the Group's activities as required by Schedule 5 to the Companies Ordinance (Cap. 622 of The Laws of Hong Kong), including a discussion of the principal risks and uncertainties facing the Group, an indication of likely future developments in the Group's business and an analysis using financial key performance indicators, can be found in Chairman's Statement on pages 2 to 5, Management Discussion and Analysis on pages 6 to 7, Review of Operations on pages 8 to 11, Environmental, Social and Governance Report on pages 12 to 25, and Notes 25(e) and 26 to the financial statements of this Annual Report.

A discussion on the Group's key relationships with its stakeholders, environmental policies and performance, and its compliance with the relevant laws and regulations that have a significant impact on the Group is contained in Environmental, Social and Governance Report on pages 12 to 25 of this Annual Report. These discussions form part of this Directors' Report.

The analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in Notes 3 and 11(b) to the financial statements of this Annual Report.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2017 are set out in Note 13 to the financial statements.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2017 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 53 to 97 of this Annual Report.

DIVIDEND

The Board has recommended declaring a final dividend of 1.0 HK cent (2016: 2.5 HK cents) per share as compared to interim dividend of HK$Nil (2016: HK$Nil) per share and special dividend of HK$Nil (2016: HK$1.35) per share representing a total of 1.0 HK cent (2016: HK$1.375) per share for the year ended 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 25 June 2018 to Friday, 29 June 2018 (both days inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the forthcoming AGM (the "2018 AGM"), all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited ("Computershare"), of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 22 June 2018.

Subject to the shareholders approving the recommended final dividend at the 2018 AGM of the Company, such dividend will be payable on or around Monday, 23 July 2018 to shareholders whose names appear on the register of members of the Company on Friday, 13 July 2018. To determine eligibility for the final dividend, the register of members of the Company will be closed from Tuesday, 10 July 2018 to Friday, 13 July 2018 (both days inclusive), during which period no shares can be registered. In order to qualify for the aforementioned final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with Computershare, of Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 9 July 2018.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 25(c) to the financial statements.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK$259,000 (2016: HK$250,000).

FIXED ASSETS

Movements in fixed assets during the year are set out in Note 12 to the financial statements.

RESERVES

Details of movements in reserves of the Company during the year are set out in Note 25(a) to the financial statements. Details of movements in reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity.

DIRECTORS

The Directors during the financial year and up to the date of this Annual Report were:

Executive Directors:

Mr. Yao Xiangjun *(Chairman)*

Ms. Ko Wing Yan, Samantha

Mr. Su Ning

Non-executive Directors:

Ms. Yang Xiaoping

Mr. Dong Xue

Mr. Yuan Feng

Independent Non-executive Directors:

Mr. Fung, Yuk Kan Peter

Mr. Chu, Howard Ho Hwa

Mr. Hou Ziqiang

In accordance with Bye-laws of the Company, Mr. Su Ning, Ms. Yang Xiaoping and Mr. Dong Xue shall retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests of the Directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), as recorded in the register required to be maintained by the Company under Section 352 of the SFO or as required, pursuant to the Model Code to be notified to the Company and the Stock Exchange were as follows:

(a)(i) Interests in shares of the Company

Name of Director	Capacity	Number of shares in the Company held	Approximate percentage of the total issued share capital of the Company
Ko Wing Yan, Samantha	Personal Interest	247,000	0.03%

(a)(ii) Interests in shares of BOE Technology Group Co., Ltd. ("BOE") (an associated corporation) (Note 1)

Name of Director	Capacity	Number of A shares in BOE held	Approximate percentage of the total issued share capital of BOE
Yao Xiangjun	Personal Interest	100,000	0.00%
Dong Xue	Personal Interest	100,000	0.00%

Notes:

1. BOE subscribed 400,000,000 shares, representing 54.41% of the issued share capital of the Company.
2. Mr. Su Ning bought 30,000 A shares of BOE on 28 February 2018.
3. All the interests disclosed above represent long positions.

Other than the aforesaid and as disclosed under the section headed "Share Option Schemes and Directors' and Chief Executives' Rights to Acquire Shares or Debentures" below, as at 31 December 2017, none of the Directors, chief executives or any of their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEMES AND DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

On 6 June 1991, the Company adopted a share option scheme. This is to provide the Group with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to the Group's employees and business associates (the "Participants"). It was subsequently amended on 8 June 1999 and expired on 5 June 2001. A second share option scheme of the Company was adopted on 22 June 2001 and terminated on 12 May 2003.

A third share option scheme of the Company was adopted on 12 May 2003 as an incentive to the Participants. The third share option scheme limit was subsequently refreshed by a resolution passed at the annual general meeting held on 2 June 2010. The maximum number of share options that can be granted by the Company was refreshed to 32,342,220 share options. This scheme expired on 11 May 2013.

A fourth share option scheme of the Company was adopted on 3 June 2013. It shall be valid and effective for a period of 10 years and as at 31 December 2017, the fourth share option has a remaining life of up to 2 June 2023. On 9 July 2015, 8,600,000 share options were granted under the fourth share option scheme and a consideration of HK$19.00 was received. During the year, no share option was granted under the fourth share option scheme.

The Company can grant share options to the Participants for a consideration of HK$1.00 for each grant payable by the Participants. The maximum number of shares in respect of which share options may be granted under the fourth share option scheme and any other schemes of the Company may not exceed 10% of the issued share capital of the Company at the date of approval of the fourth share option scheme. The maximum entitlement of each Participant in the total number of shares issued and to be issued upon exercise of share options granted under the fourth share option scheme and any other share option schemes of the Company in any 12-month period shall not exceed 1% of the total number of shares in issue.

Subscription price of the shares in relation to a share option shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date on which the share option is offered to the Participants, which must be a business day; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of offer; and (iii) the nominal value of the shares. There shall be no minimum period for which the share options must be held before they are exercised but the Board may determine.

As at the date of this Annual Report, the total number of share options that can be granted was 24,411,520, representing 3.32% of the issued share capital of the Company. The total number of shares available for issue under the share option schemes as at 31 December 2017 represents 1.07% (2016: 1.08%) of the issued share capital of the Company at that date. Further details of the share option schemes are set out in Note 24 to the financial statements.

(b) Interests in share options of the Company

Movements in the Company's share options during the year are as follows:

Category	Date of grant	Number of share options at 1 January 2017	Number of share options granted during the year	Number of share options cancelled/ lapsed during the year	Number of share options exercised during the year	Number of share options at 31 December 2017	Exercisable period	Price per share to be paid on exercise of share options	Market value per share at date of grant of share options	Weighted average closing price of share options immediately before the dates on which the share options were exercised
Directors										
Ko Wing Yan, Samantha	9 July 2015	2,000,000	–	–	–	2,000,000	(Note 5)	HK$5.72	HK$5.65	N/A
Hou Ziqiang	9 July 2015	300,000	–	–	–	300,000	(Note 5)	HK$5.72	HK$5.65	N/A
Others										
Ko Chun Shun, Johnson (Note 1)	9 July 2015	2,000,000	–	–	–	2,000,000	(Note 5)	HK$5.72	HK$5.65	N/A
Ho Te Hwai, Cecil (Note 2)	9 July 2015	1,000,000	–	–	–	1,000,000	(Note 5)	HK$5.72	HK$5.65	N/A
Lo Wing Yan, William (Note 3)	9 July 2015	300,000	–	–	–	300,000	(Note 5)	HK$5.72	HK$5.65	N/A
Chau Shing Yim, David (Note 4)	9 July 2015	300,000	–	–	–	300,000	(Note 5)	HK$5.72	HK$5.65	N/A
Employees	9 July 2015	2,070,000	–	–	(120,000)	1,950,000	(Note 5)	HK$5.72	HK$5.65	HK$6.73
		7,970,000	–	–	(120,000)	7,850,000				

Notes:

(1) Mr. Ko Chun Shun, Johnson resigned as an Executive Director on 28 April 2016. The 2,000,000 share options held by Mr. Ko were retained until the end of the expiry of the exercisable period of the share options, and reclassified from the category 'Directors' to 'Others'.

(2) Mr. Ho Te Hwai, Cecil resigned as an Executive Director on 28 April 2016. The 1,000,000 share options held by Mr. Ho were retained until the end of the expiry of the exercisable period of the share options, and reclassified from the category 'Directors' to 'Others'.

(3) Dr. Lo Wing Yan, William retired as an Independent Non-executive Director on 3 June 2016. The 300,000 share options held by Dr. Lo were retained until the end of the expiry of the exercisable period of the share options, and reclassified from the category 'Directors' to 'Others'.

(4) Mr. Chau Shing Yim, David retired as an Independent Executive Director on 3 June 2016. The 300,000 share options held by Mr. Chau were retained until the end of the expiry of the exercisable period of the share options, and reclassified from the category 'Directors' to 'Others'.

(5) Exercisable period:

(i) the first 40% of the options shall be exercisable from 1 September 2015 to 31 August 2018;

(ii) the second 30% of the options shall be exercisable from 1 September 2016 to 31 August 2018; and

(iii) the remaining 30% of the options shall be exercisable from 1 September 2017 to 31 August 2018.

(6) All the interests disclosed above represent long positions.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executive or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, other than the interests disclosed under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures", so far as is known to the Directors and chief executives of the Company, the following companies and person had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Capacity	Number of shares in the Company held	Number of underlying shares in the Company held	Total	Approximate percentage of the total issued share capital of the Company
BOE Technology Group Co., Ltd.	Interest of controlled corporation	400,000,000 (Note 1)	–	400,000,000	54.41%
Ko Chun Shun, Johnson	Beneficial owner	56,551,000 (Note 2)	2,000,000 (Note 3)	58,551,000	7.96%
Rockstead Technology Limited	Interest of controlled corporation	43,951,000 (Note 2)	–	43,951,000	5.98%

Notes:

(1) The subscription (the "Subscription") of the 400,000,000 shares of the Company by BOE Technology Group Co., Ltd., a joint stock company established in the PRC and the issued shares of which are listed on the Shenzhen Stock Exchange with stock code 000725 for its A shares and stock code 200725 for its B shares.

(2) Rockstead Technology Limited and Omnicorp Limited, both wholly-owned by Mr. Ko Chun Shun, Johnson (a former Executive Director of the Company and the former Chairman of the Board), held 43,951,000 shares and 10,700,000 shares of the Company respectively.

(3) This represents the interests in 2,000,000 share options held by Mr. Ko Chun Shun, Johnson.

(4) All the interests disclosed above represent long positions.

Saved as disclosed above, as at 31 December 2017, there were no other companies nor persons who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Section 336 of the SFO, or which were recorded in the register to be kept by the Company under Section 336 of the SFO.

DEBENTURE ISSUE

The Group has not issued any debenture during the year ended 31 December 2017.

DIRECTORS' SERVICE CONTRACTS

Mr. Yao Xiangjun, Ms. Ko Wing Yan, Samantha and Mr. Su Ning have entered into a management agreement with the Company which may be terminated by either party to the agreement at one month's notice.

Non-executive Directors are appointed for a term of three years. Independent Non-executive Directors are appointed for a period up to 31 December 2018 or such other date as agreed by the Independent Non-executive Directors and the Company.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT

Referring the section headed "Continuing Connected Transactions, Connected Transactions and Other Related Party Transactions" as disclosed, each of Mr. Yao Xiangjun and Mr. Dong Xue held 100,000 A shares of BOE, and Mr. Su Ning held 30,000 A shares of BOE. In addition, Mr. Yao is a member of executive committee of BOE, a senior vice president, a joint chief operating officer and the chief executive officer of the smart system business group of BOE. Mr. Yao is also a president of BOE Optoelectronics Technology Co., Ltd., Beijing BOE Vision-electronic Technology Co., Ltd., Beijing BOE Multimedia Science & Technology Co., Ltd. and Beijing Intelligence Science & Technology Co., Ltd. Mr. Dong is senior vice president and the chief technical officer for display panel business of BOE. Mr. Su is the general manager of the application business department of Beijing BOE Display Technology Co., Ltd. (a subsidiary of BOE). Moreover, Ms. Yang Xiaoping is a vice president and a deputy financial controller of BOE. Ms. Yang is also a director or supervisor of a number of subsidiaries of BOE. Mr. Yuan Feng is a vice president and the chief marketing officer of BOE.

Mr. Yao, Mr. Su, Ms. Yang, Mr. Dong and Mr. Yuan may be considered having interests in the above-mentioned transactions.

Except as disclosed above, there has been no transaction, arrangement or contract of significance to which the Company, or any of its subsidiaries was a party, in which a Director of the Company and the Director's connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year. There is no material interest of directors in contracts involving the Company.

CONTINUING CONNECTED TRANSACTIONS, CONNECTED TRANSACTIONS AND OTHER RELATED PARTY TRANSACTIONS

A number of connected transaction and continuing connected transactions are entered into and between the Group and members of BOE. BOE Technology (HK) Limited ("BOE(HK)"), a wholly-owned subsidiary of BOE, is the controlling shareholder of the Company holding approximately 54.41% of the issued share capital of the Company.

(a) Continuing Connected Transactions

(1) Renewed Master Purchase Agreement and Master Subcontracting Agreement

On 22 April 2016, the Company and BOE entered into the master purchase agreement (the "Master Purchase Agreement"), pursuant to which the Group agreed to purchase TFT panels and other products including, but not limited to, raw materials for manufacturing TFT modules from BOE and its subsidiaries (the "BOE Group") up to 31 December 2016.

On 27 October 2016, the Company and BOE entered into (i) the master subcontracting agreement (the "Master Subcontracting Agreement"), pursuant to which the Company has agreed the Group to engage the BOE Group to provide subcontracting services of manufacturing TFT/TP modules and other products on a non-exclusive basis; and (ii) the renewed master purchase agreement (the "Renewed Master Purchase Agreement"), pursuant to which the Company and BOE have agreed to extend the terms of the Master Purchase Agreement from up to 31 December 2016 to 31 December 2018.

Pursuant to the approval obtained at the special general meeting of the Company held on 29 December 2016, the annual caps under the Master Subcontracting Agreement and the Renewed Master Purchase Agreement for the three years are as follows:

	For the year ended/ending 31 December		
	2016	2017	2018
	HK$ million	HK$ million	HK$ million
Subcontracting Transactions	10	73	138
Purchase Transactions	133	702	1,229

More high-end vehicle models and other new automobile models like electric cars are using and expected to use coloured displays (including TFT displays) instead of monochrome LCD displays. The Company is of the view that monochrome display business provides a stable prospect but it has limited growth opportunity. The Company considers that the increasing usage of coloured display products is the global development trend of the display market. Given this shifting trend, the Company considers that with a view to achieving continued growth, it is a strategy for the Group to quickly further develop and expand the Group's TFT product line segment by capitalising on the Group's product and market position in monochrome displays.

Following completion of the Subscription, the Group has been discussing with the BOE Group to quickly further develop and expand its automotive TFT business segment. After considering the existing automotive TFT module manufacturing capacity and capabilities of the Group, the Directors consider it beneficial for the Group to leverage on the manufacturing resources of the BOE Group by entering into the Master Subcontracting Agreement to quickly expand its automotive TFT business segment.

The Group has been purchasing TFT panels and other products for manufacturing TFT modules the BOE Group from time to time. With the continued business growth, the Company expects that the original purchase annual cap of HK$90 million will not be sufficient for the Group's business growth, and thus proposes that the Original Purchase Annual Cap be revised. The Company also seeks to extend the arrangements under the Master Purchase Agreement for further two years to 31 December 2018. As such, the Directors consider it beneficial for the Group to revise the original purchase annual cap and to extend the term of the Master Purchase Agreement by entering into the Renewed Master Purchase Agreement.

The total amounts of the Subcontracting Transactions during the years 2016 and 2017 are HK$Nil and HK$13,978,000 respectively. The total amounts of the Purchase Transactions during the years 2016 and 2017 are HK$106,347,000 and HK$442,874,000 respectively.

(2) Tenancy Agreement, Management Agreement, Utilities Agreement and Computer Integrated Manufacturing (the "CIM") System Management Agreement

On 13 January 2017, the Group entered into the tenancy agreement (the "Tenancy Agreement"), the management agreement, the utilities agreement and the CIM system management agreement (the "Related Agreements") for a term from 15 January 2017 to 31 December 2019 whereby (i) Chengdu BOE Optoelectronics Technology Co., Ltd. ("Chengdu BOE"), a wholly-owned subsidiary of BOE, has agreed to lease the premises to the Group; and (ii) Chengdu BOE has agreed to provide (a) management service, (b) utilities and (c) optional CIM system management service for the Group in connection with the lease of the premises.

Pursuant to the Tenancy Agreement and the Related Agreements on an aggregate basis, the annual caps for the total estimated annual payment (comprising the rental, management fee, utilities fee and optional CIM system management fee) for the relevant periods in 2017, 2018 and 2019 are as follows:

	For the periods from 15 January 2017 to 31 December 2017 (RMB)	For the year ending 31 December 2018 (RMB)	For the year ending 31 December 2019 (RMB)
Total payment under the Tenancy Agreement	971,494.09	1,009,485.48	1,009,485.48
Total payment under the Management Agreement	1,333,671.95	2,041,383.48	2,041,383.48
Total payment under the CIM System Management Agreement	461,217.50	997,516.92	997,516.92
Sub-total	2,766,383.54	4,048,385.88	4,048,385.88
Estimated total payment under the Utilities Agreement	4,970,000.00	8,320,000.00	8,320,000.00
Total (Annual Caps)	7,736,383.54	12,368,385.88	12,368,385.88

BOE Group has established production facilities of TFT modules, the Group intends to leverage on the manufacturing resources of BOE and may consider to acquire such facilities to quickly expand its automobile TFT modules manufacturing business segment in view of the market trends and opportunities. Following completion of the Subscription, Chengdu BOE Vehicle Display Technology Co., Ltd. (formerly known as Varitronix (Chengdu) Display Technology Co. Ltd.) was set up for the business expansion of the Group's TFT business segment. The Board has considered the business needs of the Group and is of the view that additional production and office space are required for the operation and growth of the Group and the premises, which is located in the premises of Chengdu BOE's TFT panel production facilities, fits the needs of the expansion. Therefore, the Group has entered into the Tenancy Agreement and the Related Agreements with Chengdu BOE on 13 January 2017. The total annual payment (comprising the rental, management fee, utilities fee and optional CIM system management fee) for the period from 15 January 2017 to 31 December 2017 is HK$8,125,000 (equivalent to approximately RMB7,065,217).

To strengthen the business operation in the TFT business segment of the Group, the Group also entered into the acquisition agreement on 20 February 2017, pursuant to which the Group acquired certain TFT module production facilities (the "Target Assets") amounted to HK$67,962,263 from Chengdu BOE (as set out in Note (b) Connected Transaction).

The Independent Non-executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that these continuing connected transactions were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The company's auditor was engaged to report on the continuing connected transaction in relation to Renewed Master Purchase Agreement and Master Subcontracting Agreement, and the Tenancy Agreement and the Related Agreements in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued a letter containing the findings and conclusions in respect of this continuing connected transaction disclosed by the Group above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided to the Company for submission to the Stock Exchange.

(b) Connected Transaction

Acquisition Agreement

On 20 February 2017, the Group and Chengdu BOE entered into the acquisition agreement, pursuant to which the Group has agreed to acquire and Chengdu BOE has agreed to sell the Target Assets at the consideration of RMB60,143,596.00 (equivalent to approximately HK$67,962,263.48).

(c) Other Related Party Transactions

Except as disclosed above, related party transactions entered into by the Group during the year which do not constitute connected transactions or continuing connected transactions under the Listing Rules are disclosed in Note 29 to the financial statements.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions entered into by the Group during the year ended 31 December 2017.

EQUITY-LINKED AGREEMENTS

Other than the aforesaid and as disclosed under the section headed "Share Option Schemes and Directors' and Chief Executives' Rights to Acquire Shares or Debentures" above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PERMITTED INDEMNITY PROVISION

The Company's Bye-law provides that the Directors shall be indemnified out of the assets of the Company against any actions, costs, charges, losses, damages and expenses as a result of any act or failure to act in carrying out their functions.

The Company has arranged directors' and officers' liability insurance cover in respect of legal action against the Directors during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the law of Bermuda.

BANK LOANS

Particulars of bank loans of the Group at 31 December 2017 are set out in Note 21 to the financial statements.

CAPITALISATION OF INTEREST

No interest was capitalised by the Group during the year.

PROPERTIES

Particulars of the properties held by the Group are shown on page 99 of this Annual Report.

FIVE YEAR SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 98 of this Annual Report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and within the knowledge of the Directors, for the year under review, the Company has maintained the prescribed public float under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2017, the five largest customers of the Group accounted for 42.4% of the Group's total revenue while the largest customer of the Group accounted for 21.0% of the Group's total revenue. In addition, for the year ended 31 December 2017, the five largest suppliers of the Group accounted for 35.8% of the Group's total purchases while the largest supplier of the Group accounted for 15.7% of the Group's total purchases.

At no time during the year have the Directors or any shareholder of the Company (which to the knowledge of the Directors own more than 5% of the Company's total issued share capital) had any interest in these major customers and suppliers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the Independent Non-executive Directors to be independent.

AUDITORS

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

Yao Xiangjun

Chairman

Hong Kong, 27 March 2018

Report of the Independent Auditor

KPMG

Independent auditor's report to the shareholders of BOE Varitronix Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of BOE Varitronix Limited (formerly known as Varitronix International Limited) ("the Company") and its subsidiaries ("the Group") set out on pages 53 to 97, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

TIMING OF REVENUE RECOGNITION

Refer to note 3 to the consolidated financial statements and the accounting policy note 1(s).

The Key Audit Matter	How the matter was addressed in our audit
Revenue from sales of the Group's liquid crystal display ("LCD") products is recognised when the products are delivered to the customer's designated location which is considered to be the point in time when the Group transfers the significant risks and rewards of ownership of the goods to the customer. The Group's sales contracts with customers, which principally comprise automotive manufacturers, have a variety of trade terms relating to goods acceptance. Such terms may affect the timing of the recognition of sales to those customers. The Group evaluates the shipping terms of each sales contract in order to determine the appropriate timing for revenue recognition. There is a risk that revenue transactions may not be recognised in the appropriate financial period due to lead times for sales made around the year end and the variety of trade terms offered to the customers. We identified the timing of revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and could be subject to manipulation to meet targets or expectations and because of the variety of trade terms offered to customers which increases the risk of error in the recognition of revenue.	Our audit procedures to assess the timing of revenue recognition included the following: – obtaining an understanding of and assessing the design, implementation and operating effectiveness of the Group's key internal controls over revenue recognition; – inspecting key customer contracts to identify terms and conditions relating to goods acceptance and assessing the Group's timing of recognition of revenue with reference to the requirements of the prevailing accounting standards; – comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with underlying sales invoices and delivery documents with the customers' acknowledgement of goods acceptance to determine whether the related revenue had been recognised in the appropriate financial period; and – inspecting underlying documentation for manual journal entries relating to revenue which were considered to be material or met other specific risk-based criteria.

VALUATION OF INVENTORIES

Refer to note 17 to the consolidated financial statements and the accounting policy note 1(j).

The Key Audit Matter	How the matter was addressed in our audit
The Group held significant inventories as at 31 December 2017, which comprised raw materials, work-in-progress and finished goods in respect of LCD and related products. Inventories are stated at the lower of cost and net realisable value. The Group maintains its inventory levels based on customer orders and forecast demand. There is a risk that the net realisable value of inventories may fall below their cost due to changes in customer demand and the consequent overstocking of inventories at the end of the reporting period. In addition, a significant proportion of the Group's products are manufactured to meet specific customer requirements. There is a risk that if a customer experiences financial difficulty or there is a demand issue with a customer's product that includes a part manufactured by the Group that the related inventories held by the Group may not be sold or may be sold at a price below their cost. Management assesses the level of write-downs of inventories required at each reporting date after considering inventory ageing and other relevant factors. Such assessment involves significant management judgement and estimation in determining the value of inventories which will not be recoverable at each reporting date. We identified the valuation of inventories as a key audit matter because inventories are significant to the consolidated financial statements and because of the significant degree of management judgement involved in determining the write-down of inventories.	Our audit procedures to assess the valuation of inventories included the following: – obtaining an understanding of and assessing the design, implementation and operating effectiveness of the Group's key internal controls over the inventory write-down assessment process, including the Group's monitoring controls over slow-moving inventories; – comparing the cost of raw materials with third party supplier invoices, on a sample basis; – obtaining an understanding of the key assumptions in management's overhead absorption policy for work-in-progress and finished goods and assessing whether the actual costs included in the calculations were determined in accordance with management's overhead absorption policy by performing re-calculations of the absorbed overhead costs, on a sample basis; – updating our understanding of the Group's inventory write-down policy and assessing whether this policy remained appropriate with reference to the Group's current circumstances and the requirements of the prevailing accounting standards; – assessing the classification of inventory items in the inventory ageing report by comparison with purchase invoices and other relevant underlying documentation, on a sample basis; – selecting inventory items, on a sample basis, at the reporting date and comparing their carrying value with their subsequent selling prices as indicated in sales invoices subsequent to the reporting date; and – assessing the historical accuracy of management's calculation of write-downs of inventories by examining the utilisation or release of write-downs and provisions recorded at the end of the previous financial year during the current financial year.

RECOVERABILITY OF TRADE RECEIVABLES

Refer to notes 18 and 26(a) to the consolidated financial statements and the accounting policies notes 1(k) and 1(i).

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2017 the Group had significant trade receivables, which comprised a large number of individual balances. The Group has a wide range of customers with different individual characteristics which are exposed to their own specific risks. Therefore, there is a risk that certain of the Group's trade receivables may not be recoverable. Management has implemented internal controls to monitor credit control, collection of trade receivables and follow up of overdue balances. Management assesses the level of allowances for doubtful debts required at each reporting date after taking into account the ageing analysis of trade receivables and any other factors specific to individual debtors concerned and a collective element based on historical experience adjusted for certain current factors. Such assessment involves significant management judgement and estimation. We identified the recoverability of trade receivables as a key audit matter because of the significance of trade receivables to the consolidated financial statements and because of the significant degree of management judgement involved in determining the allowances for doubtful debts.	Our audit procedures to assess the recoverability of trade receivables included the following: – obtaining an understanding of and assessing the design, implementation and operating effectiveness of the Group's key internal controls over the processes of credit control, collection of trade receivables and follow up of overdue balances; – evaluating the Group's policy for making allowances for doubtful debts with reference to the requirements of the prevailing accounting standards; – assessing the classification of trade receivable items in the trade receivable ageing report by comparison with sales invoices and other underlying documentation, on a sample basis; – assessing the recoverability of trade receivables at the reporting date by inspecting bank receipts and other relevant underlying documentation subsequent to the reporting date, on a sample basis; – obtaining an understanding of the basis of management's judgements about the recoverability of individual trade receivable balances and evaluating the allowances for doubtful debts made by management for these individual balances with reference to the debtors' financial condition, the industry in which the debtors are operating, the ageing of overdue balances and historical and post year end payment records; and – assessing the assumptions and estimates made by management in the calculation of the allowances for doubtful debts based on a collective assessment by performing a retrospective review of the historical accuracy of these estimates and recalculating the Group's allowance with reference to the Group's policy for collective assessment.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The Directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

– Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yip Ka Ming, Alice.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

27 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Note	2017 $'000	2016 $'000
Revenue	3	**2,879,159**	2,247,470
Other operating income/(loss)	4	**36,620**	(24,462)
Change in inventories of finished goods and work in progress		**204,121**	(68,959)
Raw materials and consumables used		**(2,169,769)**	(1,332,032)
Staff costs		**(511,855)**	(423,530)
Depreciation	12	**(99,609)**	(90,029)
Other operating expenses		**(318,039)**	(248,759)
Profit from operations		**20,628**	59,699
Finance costs	5(a)	**(50)**	(1,197)
Share of losses of an associate		**(297)**	(453)
Profit before taxation	5	**20,281**	58,049
Income tax credit/(charge)	6(a)	**1,832**	(7,526)
Profit for the year attributable to equity shareholders of the Company		**22,113**	50,523
Earnings per share (in HK cents)	10		
Basic		**3.0 cents**	8.4 cents
Diluted		**3.0 cents**	8.4 cents

The notes on pages 58 to 97 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 25(b).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Note	2017 $'000	2016 $'000
Profit for the year		**22,113**	50,523
Other comprehensive income for the year (after tax and reclassification adjustments):	9		
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustments: net movement in the exchange reserve		**63,134**	(65,900)
Available-for-sale securities: net movement in the fair value reserve		**2,224**	(11,696)
Other comprehensive income for the year		**65,358**	(77,596)
Total comprehensive income for the year attributable to equity shareholders of the Company		**87,471**	(27,073)

The notes on pages 58 to 97 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2017
(Expressed in Hong Kong dollars)

	Note	2017 $'000	2016 $'000
Non-current assets			
Fixed assets	12		
– Property, plant and equipment		491,169	352,102
– Interest in leasehold land held for own use under operating leases		9,678	9,695
		500,847	361,797
Interest in an associate	14	4,436	4,150
Loans receivable	15	–	15,500
Other financial assets	16	13,069	10,783
Non-current deposits	18	63,010	18,336
Deferred tax assets	22(b)	10,348	2,731
		591,710	413,297
Current assets			
Inventories	17	803,152	450,993
Trade and other receivables	18	850,855	510,992
Other financial assets	16	20,700	54,211
Current tax recoverable	22(a)	1,013	19,466
Fixed deposits with more than three months to maturity when placed	19	222,137	626,231
Cash and cash equivalents	19	980,402	1,098,672
		2,878,259	2,760,565
Current liabilities			
Trade and other payables	20	656,784	424,060
Bank loans	21	–	8,890
Current tax payable	22(a)	32	1,417
Deferred income	23	1,344	–
		658,160	434,367
Net current assets		2,220,099	2,326,198

	Note	2017 $'000	2016 $'000
Total assets less current liabilities		2,811,809	2,739,495
Non-current liabilities			
Deferred tax liabilities	22(b)	8,162	7,888
Deferred income	23	1,606	–
		9,768	7,888
NET ASSETS		2,802,041	2,731,607
CAPITAL AND RESERVES			
Share capital	25(c)	183,794	183,764
Reserves		2,618,247	2,547,843
TOTAL EQUITY		2,802,041	2,731,607

Approved and authorised for issue by the board of directors on 27 March 2018.

Yao Xiangjun
Director

Ko Wing Yan, Samantha
Director

The notes on pages 58 to 97 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017
(Expressed in Hong Kong dollars)

		Attributable to shareholders of the Company								
	Note	Share capital (note 25(c)) $'000	Share premium (note 25(d)(i)) $'000	Exchange reserve (note 25(d)(iii)) $'000	Fair value reserve (note 25(d)(iv)) $'000	Capital reserve (note 25(d)(v)) $'000	Other reserves (note 25(d)(vi)) $'000	Contributed surplus (note 25(d)(ii)) $'000	Retained profits $'000	Total equity $'000
Balance at 1 January 2016		82,782	719,921	33,657	11,208	19,492	21,549	–	1,016,827	1,905,436
Changes in equity for 2016:										
Profit for the year		–	–	–	–	–	–	–	50,523	50,523
Other comprehensive income	9	–	–	(65,900)	(11,696)	–	–	–	–	(77,596)
Total comprehensive income		–	–	(65,900)	(11,696)	–	–	–	50,523	(27,073)
Issuance of new shares	25(c)(ii)	100,000	1,300,000	–	–	–	–	–	–	1,400,000
Transfer to surplus reserve	25(d)(i)	–	(720,191)	–	–	–	–	720,191	–	–
Dividends approved in respect of the previous year	25(b)(ii)	–	–	–	–	–	–	–	(101,960)	(101,960)
Issuance of shares upon exercise of share options	25(c)(iii)	982	13,137	–	–	(3,715)	–	–	–	10,404
Capitalisation of issuing expenses	25(c)(ii)	–	(6,052)	–	–	–	–	–	–	(6,052)
Equity settled share-based transactions		–	–	–	–	2,150	–	–	–	2,150
Dividends declared in respect of the current year	25(b)(i)	–	–	–	–	–	–	–	(451,298)	(451,298)
		100,982	586,894	–	–	(1,565)	–	720,191	(553,258)	853,244
Balance at 31 December 2016 and 1 January 2017		**183,764**	**1,306,815**	**(32,243)**	**(488)**	**17,927**	**21,549**	**720,191**	**514,092**	**2,731,607**
Changes in equity for 2017:										
Profit for the year		–	–	–	–	–	–	–	22,113	22,113
Other comprehensive income	9	–	–	63,134	2,224	–	–	–	–	65,358
Total comprehensive income		–	–	63,134	2,224	–	–	–	22,113	87,471
Dividends approved in respect of the previous year	25(b)(ii)	–	–	–	–	–	–	–	(18,376)	(18,376)
Issuance of shares upon exercise of share options	25(c)(iii)	30	770	–	–	(114)	–	–	–	686
Equity settled share-based transactions		–	–	–	–	653	–	–	–	653
		30	770	–	–	539	–	–	(18,376)	(17,037)
Balance at 31 December 2017		**183,794**	**1,307,585**	**30,891**	**1,736**	**18,466**	**21,549**	**720,191**	**517,829**	**2,802,041**

The notes on pages 58 to 97 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Note	2017 $'000	2016 $'000
Operating activities			
Cash (used in)/generated from operations	19(b)	**(343,479)**	235,044
Tax refunded/(paid)			
– Hong Kong Profits Tax refunded/(paid)		**16,882**	(19,528)
– People's Republic of China ("PRC") income taxes paid		**(1,468)**	(5,071)
– Tax paid in respect of jurisdictions outside Hong Kong and the PRC		**(3,865)**	(6,104)
Net cash (used in)/generated from operating activities		**(331,930)**	204,341
Investing activities			
Proceeds from disposal of fixed assets		**–**	1,883
Payment for the purchase of fixed assets		**(249,777)**	(68,052)
Government grants received relating to acquisition of property, plant and equipment		**5,049**	–
Payment for the costs of enterprise reporting system implementation		**(6,731)**	–
Payment for the purchase of held-to-maturity debt securities		**–**	(16,304)
Payment for the purchase of certificates of deposits		**(20,624)**	(784,092)
Placement of fixed deposits with more than three months to maturity when placed		**(918,337)**	(827,991)
Proceeds from redemption of fixed deposits with more than three months to maturity when placed		**1,326,931**	201,760
Proceeds from redemption of certificates of deposits		**10,260**	760,504
Proceeds from redemption of held-to-maturity debt securities		**44,405**	–
Proceeds from consideration received from disposal of non-listed available-for-sale equity securities and associated loans receivable		**15,500**	15,500
Proceeds from the sale of trading securities		**–**	109,712
Proceeds from disposal of available-for-sale mutual funds		**–**	7,990
Proceeds from disposal of available-for-sale equity securities		**–**	11,365
Interest received		**23,335**	12,074
Net cash generated from/(used in) investing activities		**230,011**	(575,651)
Financing activities			
Issuance of shares upon exercise of share options	25(c)(iii)	**686**	10,404
Issuance of new shares	25(c)(ii)	**–**	1,393,948
Proceeds from new bank loans		**–**	41,406
Repayment of bank loans		**(8,890)**	(183,782)
Interest paid		**(50)**	(1,196)
Dividends paid		**(18,376)**	(553,258)
Net cash (used in)/generated from financing activities		**(26,630)**	707,522
Net (decrease)/increase in cash and cash equivalents		**(128,549)**	336,212
Cash and cash equivalents at 1 January		**1,098,672**	767,393
Effect of foreign exchange rates changes		**10,279**	(4,933)
Cash and cash equivalents at 31 December	19(a)	**980,402**	1,098,672

The notes on pages 58 to 97 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as available-for-sale securities are stated at their fair value (see note 1(f)).

The Group recorded negative operating cashflows of $331,930,000 for the year ended 31 December 2017. Based on a cashflow forecast for the next twelve months prepared by management as well as the unutilised banking facilities (note 21) available to the Group as at 31 December 2017, the directors of the Company are of the opinion that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

(c) Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 19(c) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries (continued)

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)).

(e) Associate

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the associate's identified net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the associate's net assets and any impairment loss relating to the investment (see note 1(i)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of associates and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of associates' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognised in profit or loss.

(f) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in the profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the accounting policies set out in notes 1(s)(ii) and 1(s)(iii) respectively.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 1(i)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(i)).

Investments in securities which do not fall into the above category are classified as available-for-sale securities. At the end of each reporting period date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 1(s)(ii) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 1(s)(iii). When these investments are derecognised or impaired (see note 1(i)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(i)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

–	Land and buildings	40 years
–	Plant and machinery	2 to 8 years
–	Tools and equipment	2 to 5 years
–	Others	2 to 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the lease term. Impairment losses are recognised in accordance with the accounting policy set out in note 1(i).

(i) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and other receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investment in an associate accounted for under the equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(i)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset, where the effect of discounting is material. Impairment losses for equity securities at cost are not reversed.

– For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material. This assessment is made collectively where financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

– If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that had been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in other comprehensive income.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for bad and doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– prepaid interest in leasehold land classified as being held for own use under operating leases;

– goodwill; and

– investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, or value in use, if determinable.

– *Reversal of impairment losses*

In respect of assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in first-out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment losses of doubtful debts (see note 1(i)), except where the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Loans receivable

Loans receivable are recognised initially at fair value and thereafter stated at amortised cost using the effective interest method, less any identified impairment losses. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired (see note 1(i)(i)).

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(r)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(r)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised at the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of returns and any trade discounts.

(ii) Dividends

Dividend income from listed investments is recognised when the share price of the security goes ex-dividend. Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(t) Research and development

Research and development expenditure is recognised as an expense in the period in which it is incurred.

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Translation of foreign currencies (continued)

The results of operations with functional currency other than Hong Kong dollars are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation with functional currency other than Hong Kong dollars, the cumulative amount of the exchange differences relating to that operation is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

(v) Borrowing costs

Borrowings costs are expensed in the period in which they are incurred.

(w) Related parties

(1) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(2) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (1).
- (vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2. ACCOUNTING JUDGEMENT AND ESTIMATES

Notes 16, 24 and 26(e) contain information about assumptions and their risk factors relating to valuation of other financial assets, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment of assets

Internal and external sources of information are reviewed by the Group at the end of each reporting period to assess whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated to determine impairment losses on the asset. Changes in facts and circumstances may result in revisions to the conclusion of whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

(b) Write-down of inventories

The Group reviews the carrying amounts of the inventories at the end of each reporting period to determine whether the inventories are carried at lower of cost and net realisable value in accordance with the accounting policy set out in note 1(j). Management estimates net realisable value based on the current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversal of write-down made in prior years and affect the Group's net asset value and profit or loss.

(c) Going concern

As disclosed in note 1(b) to the financial statements, the directors have prepared the financial statements on a going concern basis as they are of the opinion that the Group will be able to operate as a going concern based on the cashflow forecast for the next twelve months prepared by management. Any significant unfavourable difference between the Group's actual performance and its cashflow forecast would affect the conclusion that the Group is able to continue as a going concern.

3. REVENUE

The principal activity of the Company is investment holding. The principal activities of the Group are the design, manufacture and sale of liquid crystal displays ("LCDs") and related products.

Revenue represents the invoiced value of goods supplied to customers by the Group less returns and discounts.

The Group's customer base is diversified and includes two customers with whom transactions have exceeded 10% of the Group's revenues in 2017 (2016: one). In 2017 revenues from sales to the two customers in terms of sales amount, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately $902,327,000 (revenues from sales to the customer in 2016: $224,752,000). Details of concentrations of credit risk are set out in note 26(a).

Further details regarding the Group's segment reporting are disclosed in note 11 to these financial statements.

4. OTHER OPERATING INCOME/(LOSS)

	2017 $'000	2016 $'000
Interest income from listed debt securities	294	1,626
Other interest income	21,390	12,302
Net gain on disposal of fixed assets	–	25
Gain on disposal of available-for-sale mutual funds	–	4,334
Gain on disposal of available-for-sale equity securities	–	9,475
Loss on disposal of trading securities	–	(51,179)
Net exchange gain/(loss)	1,229	(8,269)
Government grants (note)	10,688	3,414
Other income	3,019	3,810
	36,620	(24,462)

Note: The amount mainly represents the incentives granted by the PRC authorities to the Group for engaging in research and development of high technology manufacturing of $8,490,000 (2016: $3,414,000) and amortisation of government grant received from the PRC authorities in relation to acquiring machineries of $2,198,000 (2016: Nil). There is no unfulfilled conditions attaching to these government grants.

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		2017 $'000	2016 $'000
(a)	**Finance costs**		
	Interest on bank advances and other borrowings wholly repayable within five years	50	1,197
(b)	**Allowance (reversed)/recognised**		
	Trade and other receivables in respect of:		
	– allowance for doubtful debts	(953)	2,782
	– allowance for sales returns	1,595	723
(c)	**Other items**		
	Cost of inventories (note 17(b))	2,467,474	1,802,342
	Auditors' remuneration:		
	– audit services fees	2,878	3,431
	– non-audit services fees	1,183	898
	Research and development costs	213,147	133,246
	Operating lease charges: minimum lease payments – hire of assets (including property rentals)	7,798	6,948
	Contributions to defined contribution retirement plans	38,094	31,716
	Equity settled share-based payment expenses	653	2,150

6. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2017 $'000	2016 $'000
Current tax – Hong Kong Profits Tax		
Under-provision in respect of prior years	–	666
Current tax – the PRC income taxes		
Provision for the year	12,450	7,918
Over-provision in respect of prior years	(10,105)	(5,816)
	2,345	2,102
Current tax – Jurisdictions outside Hong Kong and the PRC		
Provision for the year	3,169	6,321
Under-provision in respect of prior years	5	218
	3,174	6,539
Deferred tax		
Origination and reversal of temporary differences (note 22(b))	(7,351)	(1,781)
	(1,832)	7,526

(i) Hong Kong Profits Tax

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year.

(ii) PRC income taxes

The Group's operations in the PRC are subject to Corporate Income Tax Law of the PRC. The standard PRC corporate income tax rate is 25%.

Varitronix (Heyuan) Display Technology Limited ("Varitronix Heyuan"), a subsidiary of the Group, was designated as high and new technology enterprise, which qualified for a reduced Corporate Income Tax rate of 15%. Accordingly, Varitronix Heyuan's applicable tax rate is 15% for the years ended 31 December 2016 and 2017.

Chengdu BOE Vehicle Display Technology Co., Ltd, a subsidiary that was incorporated during the year ended 31 December 2017, is subject to the standard PRC corporate income tax rate of 25%.

Withholding tax is levied on dividend distributions arising from profits of the PRC entities of the Group earned after 1 January 2008 based on an applicable tax rate at 5%.

(iii) Jurisdictions outside Hong Kong and the PRC

Taxation for subsidiaries with operations outside Hong Kong and the PRC is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

(b) Reconciliation between tax (credit)/charge and accounting profit at applicable tax rates:

	2017 $'000	2016 $'000
Profit before taxation	20,281	58,049
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	(3,925)	4,625
Tax effect of non-deductible expenses	11,658	19,841
Tax effect of non-taxable income	(3,809)	(13,483)
Tax effect of unused tax losses not recognised	3,394	903
Over-provisions in respect of prior years	(10,100)	(4,932)
Others	950	572
Actual tax (credit)/expense	(1,832)	7,526

7. DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Year ended 31 December 2017

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Sub-total $'000	Share-based payments $'000	Total $'000
Executive Directors							
Ko Wing Yan, Samantha	–	2,400	200	18	2,618	159	2,777
Yao Xiangjun	–	2,400	–	81	2,481	–	2,481
Su Ning	–	1,200	54	–	1,254	–	1,254
Non-executive Directors							
Yang Xiaoping	200	–	–	–	200	–	200
Dong Xue	200	–	–	–	200	–	200
Yuan Feng	200	–	–	–	200	–	200
Independent non-executive Directors							
Hou Ziqiang	200	–	–	–	200	24	224
Fung, Yuk Kan Peter	200	–	–	–	200	–	200
Chu, Howard Ho Hwa	200	–	–	–	200	–	200
Total	1,200	6,000	254	99	7,553	183	7,736

Year ended 31 December 2016

	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Sub-total $'000	Share-based payments $'000	Total $'000
Executive Directors							
Ko Chun Shun, Johnson	–	800	–	12	812	561	1,373
Ho Te Hwai, Cecil	–	80	–	4	84	280	364
Ko Wing Yan, Samantha	–	2,190	160	18	2,368	561	2,929
Yao Xiangjun	–	1,600	–	–	1,600	–	1,600
Su Ning	–	800	160	–	960	–	960
Non-executive Directors							
Yang Xiaoping	135	–	–	–	135	–	135
Dong Xue	135	–	–	–	135	–	135
Yuan Feng	135	–	–	–	135	–	135
Independent non-executive Directors							
Dr. Lo Wing Yan, William	84	–	–	–	84	84	168
Hou Ziqiang	200	–	–	–	200	84	284
Chau Shing Yim, David	84	–	–	–	84	84	168
Fung, Yuk Kan Peter	116	–	–	–	116	–	116
Chu, Howard Ho Hwa	116	–	–	–	116	–	116
Total	1,005	5,470	320	34	6,829	1,654	8,483

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2016: three) are Directors, whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2016: two) individuals are as follows:

	2017 $'000	2016 $'000
Salaries and allowances	5,424	4,206
Retirement scheme contributions	240	205
	5,664	4,411

The emoluments of the three (2016: two) individuals with the highest emoluments are within the following band:

	2017 Number of individual	2016 Number of individual
$500,001 – $1,500,000	1	–
$1,500,001 – $2,500,000	2	1
$2,500,001 – $3,000,000	–	1

9. OTHER COMPREHENSIVE INCOME

There are no tax effects in respect of the components of other comprehensive income.

Components of other comprehensive income are as follows:

	2017 $'000	2016 $'000
Foreign currency translation adjustments:		
Exchange differences on translation of financial statements of operations outside Hong Kong	63,134	(65,900)
Available-for-sale securities:		
Changes in fair value recognised during the year	2,224	834
Reclassification to profit or loss upon disposal	–	(12,530)
	2,224	(11,696)

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of $22,113,000 (2016: $50,523,000) and the weighted average number of shares of 735,071,943 shares (2016: 604,378,565 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2017	2016
Issued ordinary shares at 1 January	735,055,204	331,125,204
Effect of issuance of new shares	–	271,038,251
Effect of share options exercised	16,739	2,215,110
Weighted average number of ordinary shares at 31 December	735,071,943	604,378,565

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of $22,113,000 (2016: $50,523,000) and the weighted average number of shares of 735,071,943 shares (2016: 605,091,117 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2017	2016
Weighted average number of ordinary shares at 31 December	735,071,943	604,378,565
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	–	712,552
Weighted average number of ordinary shares (diluted) at 31 December	735,071,943	605,091,117

11. SEGMENT REPORTING

(a) Operating segment results

The Group manages its business as a single unit and, accordingly, the design, manufacture and sale of liquid crystal displays and related products is the only reporting segment and virtually all of the revenue and operating profits is derived from this business segment. The consolidated financial statements are already presented in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment. Accordingly, no separate business segment information is disclosed.

The chief operating decision-maker has been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined that a single operating segment exists based on this internal reporting.

The Board assesses the performance of the operating segments based on revenue which is consistent with that in the consolidated financial statements. Other information, being the total assets excluding deferred tax assets, loans receivable, other financial assets, trading securities, current tax recoverable and the interest in associates, all of which are managed on a central basis, are provided to the Board to assess the performance of the operating segment.

(b) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenues from external customers and (ii) the Group's fixed assets and interest in associates ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment and the location of operations, in the case of interest in an associate.

(i) Group's revenues from external customers

	2017 $'000	2016 $'000
The PRC (place of domicile)	922,977	709,946
Europe	1,257,312	907,790
America	267,634	239,942
Korea	152,001	130,627
Others	279,235	259,165
	1,956,182	1,537,524
Consolidated revenue	2,879,159	2,247,470

Revenue from external customers located in Europe is analysed as follows:

	2017 $'000	2016 $'000
Germany	318,047	139,832
Czech Republic	207,106	18,542
United Kingdom	126,249	132,219
France	114,835	124,116
Italy	62,289	61,885
Other European countries	428,786	431,196
	1,257,312	907,790

(ii) Group's specified non-current assets

	2017 $'000	2016 $'000
The PRC (place of domicile)	497,092	358,644
Korea	4,436	4,150
Others	3,755	3,153
	505,283	365,947

12. FIXED ASSETS

	Land and buildings held for own use $'000	Plant, machinery, tools and equipment $'000	Others $'000	Construction in-progress $'000	Sub-total $'000	Interest in leasehold land held for own use under operating leases $'000	Total $'000
Cost							
At 1 January 2016	187,191	1,214,601	160,047	–	1,561,839	20,172	1,582,011
Exchange adjustments	(10,476)	(45,428)	(6,233)	–	(62,137)	(966)	(63,103)
Additions	–	39,721	20,406	–	60,127	–	60,127
Disposals	–	(55,389)	(15,803)	–	(71,192)	(3,750)	(74,942)
At 31 December 2016	176,715	1,153,505	158,417	–	1,488,637	15,456	1,504,093
At 1 January 2017	**176,715**	**1,153,505**	**158,417**	**–**	**1,488,637**	**15,456**	**1,504,093**
Exchange adjustments	**12,693**	**62,555**	**8,677**	**–**	**83,925**	**1,104**	**85,029**
Additions	**16,257**	**145,575**	**8,165**	**39,351**	**209,348**	**–**	**209,348**
Disposals	**–**	**(1,241)**	**(710)**	**–**	**(1,951)**	**–**	**(1,951)**
At 31 December 2017	**205,665**	**1,360,394**	**174,549**	**39,351**	**1,779,959**	**16,560**	**1,796,519**
Accumulated amortisation and depreciation:							
At 1 January 2016	45,605	978,695	135,935	–	1,160,235	9,168	1,169,403
Exchange adjustments	(2,762)	(35,700)	(5,241)	–	(43,703)	(349)	(44,052)
Charge for the year	7,891	74,435	7,011	–	89,337	692	90,029
Written back on disposals	–	(55,389)	(13,945)	–	(69,334)	(3,750)	(73,084)
At 31 December 2016	50,734	962,041	123,760	–	1,136,535	5,761	1,142,296
At 1 January 2017	**50,734**	**962,041**	**123,760**	**–**	**1,136,535**	**5,761**	**1,142,296**
Exchange adjustments	**3,476**	**45,365**	**6,436**	**–**	**55,277**	**441**	**55,718**
Charge for the year	**8,449**	**82,844**	**7,636**	**–**	**98,929**	**680**	**99,609**
Written back on disposals	**–**	**(1,241)**	**(710)**	**–**	**(1,951)**	**–**	**(1,951)**
At 31 December 2017	**62,659**	**1,089,009**	**137,122**	**–**	**1,288,790**	**6,882**	**1,295,672**
Net book value:							
At 31 December 2017	**143,006**	**271,385**	**37,427**	**39,351**	**491,169**	**9,678**	**500,847**
At 31 December 2016	125,981	191,464	34,657	–	352,102	9,695	361,797

12. FIXED ASSETS (CONTINUED)

(a) Other fixed assets comprise mainly leasehold improvements, furniture, fixtures, office equipment and motor vehicles.

(b) The analysis of the net book value of properties is as follows:

	2017 $'000	2016 $'000
In Hong Kong		
– medium-term leases	233	242
Outside Hong Kong		
– freehold	6,139	6,440
– medium-term leases	146,312	128,994
	152,451	135,434
	152,684	135,676
Representing:		
Land and buildings held for own use	143,006	125,981
Interest in leasehold land held for own use under operating leases	9,678	9,695
	152,684	135,676

13. SUBSIDIARIES

The following list contains only particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest			
Name of company	Place of incorporation/ operation	Particulars of issued share capital/ registered capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Chengdu BOE Vehicle Display Technology Co., Ltd. #	The People's Republic of China	Paid-up registered capital of RMB305,145,455	100%	–	100%	Manufacture and sales of LCDs and related products
Link Score Investment Limited	Hong Kong	100 ordinary shares	100%	–	100%	Investment holding
Polysources Properties Limited	Hong Kong	2 ordinary shares 154 non-voting deferred ordinary shares	100%	–	100%	Property holding
Starel Trading Limited	Republic of Cyprus/ United Kingdom	1,000 shares of €1.71 each	100%	–	100%	Property holding
Varitronix Limited	Hong Kong	2 ordinary shares 1,848 non-voting deferred ordinary shares	100%	–	100%	Design and sale of LCDs and related products

13. SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation/ operation	Particulars of issued share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Varitronix (B.V.I.) Limited	British Virgin Islands/ Hong Kong	18,480 ordinary shares of US$1 each	100%	100%	–	Investment holding
Varitronix Finance Limited	British Virgin Islands/ Hong Kong	100 ordinary shares of US$1 each	100%	–	100%	Provision of financial co-ordination services for group companies and holding of investment securities
Varitronix France SAS	France	2,500 ordinary shares of €15.25 each	100%	–	100%	Marketing and sales consultants
Varitronix GmbH	Germany	100,000 shares of €0.51 each	100%	–	100%	Marketing and sales consultants
Varitronix (Heyuan) Display Technology Limited #	The People's Republic of China	Paid-up registered capital RMB808,795,901	100%	–	100%	Manufacture and sales of LCDs and related products
Varitronix Investment Limited	British Virgin Islands/ Hong Kong	5,000 ordinary shares of US$1 each	100%	–	100%	Holding of investment securities
Varitronix Italy s.r.l.	Italy	12,000 ordinary shares of €1 each	100%	–	100%	Marketing and sales consultants
Varitronix (Switzerland) GmbH	Switzerland	Registered capital CHF30,000	100%	–	100%	Marketing and sales consultants
Varitronix (U.K.) Limited	United Kingdom	100 ordinary shares of GBP10 each	100%	–	100%	Marketing and sales consultants
VL Electronics, Inc.	United States	5,000 common stock of US$10 each	100%	–	100%	Marketing and sales consultants
Varitronix (Japan) Limited	Japan	1,000 ordinary stock of JPY10,000 each	100%	–	100%	Marketing and sales consultants

#	*Name of company*	*Type of legal entity*
	Varitronix (Heyuan) Display Technology Limited	*Wholly owned foreign enterprise*
	Chengdu BOE Vehicle Display Technology Co., Ltd	*Wholly owned foreign enterprise*

14. INTEREST IN AN ASSOCIATE

	2017 $'000	2016 $'000
Share of net assets	3,144	3,017
Amount due from an associate	1,292	1,133
	4,436	4,150

The amount due from an associate is unsecured, interest free and has no fixed repayment terms but the Group will not demand repayment within 12 months from the end of the reporting period.

Particulars of the associate

Set out below are the particulars of the associate of the Group:

Name of associate	Place of incorporation and operation	Particulars of issued share capital/ registered capital	Attributable indirect equity interest % held	Principal activity
New On Technology Company Limited	Korea	40,000 ordinary shares of KRW5,000 each	50%	Trading of electronic components

15. LOANS RECEIVABLE

Loans receivable are unsecured, interest free but guaranteed by the ultimate holding company of the debtor.

The loans receivable are repayable as follows:

	2017 $'000	2016 $'000
Within 1 year*	15,500	15,500
After 1 year but within 5 years	–	15,500
	15,500	31,000

* The current portion of loans receivable has been included in trade and other receivables (note 18).

16. OTHER FINANCIAL ASSETS

	2017 $'000	2016 $'000
Non-current portion		
Available-for-sale debt securities		
Listed outside Hong Kong, carried at fair value	12,773	10,782
Available-for-sale equity securities		
Listed in Hong Kong, carried at fair value	296	1
Total other non-current financial assets	13,069	10,783
Current portion		
Held-to-maturity debt securities		
Listed outside Hong Kong, carried at amortised cost	–	44,127
Certificate of deposits		
Issued by financial institutions in Hong Kong	20,700	10,084
Total current financial assets	20,700	54,211

The held-to-maturity debt securities at 31 December 2016 were not past due or impaired and were redeemed upon maturity during the year ended 31 December 2017.

17. INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2017 $'000	2016 $'000
Raw materials	347,592	199,553
Work in progress	139,983	93,947
Finished goods	315,577	157,493
	803,152	450,993

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	2017 $'000	2016 $'000
Carrying amount of inventories sold	2,464,321	1,797,107
Write-down of inventories	6,413	9,591
Reversal of write-down of inventories	(3,260)	(4,356)
	2,467,474	1,802,342

The reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realisable value of certain inventories as a result of a change in consumer preferences.

18. TRADE AND OTHER RECEIVABLES

	2017 $'000	2016 $'000
Trade debtors and bills receivable	744,682	475,679
Less: Allowance for doubtful debts	(5,172)	(6,125)
Allowance for sales returns	(7,668)	(6,073)
	731,842	463,481
Other receivables	112,332	43,429
Deposits and prepayments	69,691	37,918
	913,865	544,828
Less: Non-current loans receivable (note 15)	–	(15,500)
Non-current deposits	(63,010)	(18,336)
	850,855	510,992

Non-current deposits were mainly paid for the TFT panels toolings for manufacturing TFT modules, plant and equipment and the cost of enterprise reporting system implementation. Except for the rental deposit of $1,355,000 (2016: $1,115,000), all of the current portion of trade and other receivables are expected to be recovered or recognised as expense within 12 months from the end of the reporting period.

(a) Ageing analysis

As at the end of the reporting period, the ageing analysis of trade debtors and bills receivable which are included in trade and other receivables, based on the invoice date and net of allowance for doubtful debts and sales return, is as follows:

	2017 $'000	2016 $'000
Within 60 days of the invoice issue date	458,085	313,165
61 to 90 days after the invoice issue date	131,329	89,484
91 to 120 days after the invoice issue date	65,810	30,627
More than 120 days but less than 12 months after the invoice issue date	76,618	30,205
	731,842	463,481

Trade debtors and bills receivable are generally due within 60 to 90 days from the date of billing. Further details on the Group's credit policy are set out in note 26(a).

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(k)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2017 $'000	2016 $'000
At 1 January	6,125	3,343
(Reversal)/recognition of allowance for doubtful debts	(953)	2,782
At 31 December	5,172	6,125

The movement in the allowance for sales returns during the year, including both specific and collective estimation of sales returns, is as follows:

	2017 $'000	2016 $'000
At 1 January	6,073	5,350
Allowance for sales returns recognised	1,595	723
At 31 December	7,668	6,073

At 31 December 2017, the Group's trade debtors and bills receivable of $5,172,000 (2016: $6,125,000) were individually determined to be impaired. The individually impaired receivables related to customers those were in financial difficulties and management assessed that none of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $5,172,000 (2016: $6,125,000) were recognised.

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	2017 $'000	2016 $'000
Neither past due nor impaired	516,321	315,408
Less than 1 month past due	114,570	89,799
1 to 2 months past due	83,172	30,665
More than 2 months but less than 12 months past due	25,447	33,682
	223,189	154,146
	739,510	469,554

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

19. CASH AND CASH EQUIVALENTS AND FIXED DEPOSITS WITH BANKS

(a) Cash and cash equivalents and fixed deposits with banks comprise:

	2017 $'000	2016 $'000
Fixed deposits with banks and other financial institutions with more than three months to maturity when placed	222,137	626,231
Fixed deposits with banks and other financial institutions with three months or less to maturity when placed	424,265	394,290
Cash at banks and in hand	556,137	704,382
Cash and cash equivalents	980,402	1,098,672

19. CASH AND CASH EQUIVALENTS AND FIXED DEPOSITS WITH BANKS

(CONTINUED)

(b) Reconciliation of profit before taxation to cash (used in)/generated from operations:

	Note	2017 $'000	2016 $'000
Profit before taxation		**20,281**	58,049
Adjustments for:			
Depreciation	12	**99,609**	90,029
Finance costs	5(a)	**50**	1,197
Interest income		**(21,684)**	(13,928)
Loss on disposal of trading securities	4	**–**	51,179
Share of losses of an associate		**297**	453
Net gain on disposal of fixed assets	4	**–**	(25)
Gain on disposal of available-for-sale mutual funds	4	**–**	(4,334)
Gain on disposal of available-for-sale equity securities	4	**–**	(9,475)
Equity settled share-based payment expenses	5(c)	**653**	2,150
Amortisation of government grants	4	**(2,198)**	–
Foreign exchange loss/(gain)		**3,960**	(1,891)
		100,968	173,404
Changes in working capital:			
(Increase)/decrease in inventories		**(348,239)**	14,838
(Increase)/decrease in trade and other receivables		**(335,620)**	12,286
Increase in trade and other payables		**239,412**	34,516
Cash (used in)/generated from operations		**(343,479)**	235,044

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans $'000
At 1 January 2017	8,890
Changes from financing cash flows:	
Repayment of bank loans	(8,890)
Interest paid	(50)
Total changes from financing cash flows	(8,940)
Other changes:	
Finance costs (note 5(a))	50
Total other changes	50
At 31 December 2017	–

20. TRADE AND OTHER PAYABLES

	2017 $'000	2016 $'000
Trade creditors	**571,219**	348,720
Accrued charges and other payables	**85,565**	75,340
	656,784	424,060

All creditors and accrued charges are expected to be settled or recognised as income within one year or are repayable on demand.

20. TRADE AND OTHER PAYABLES

(CONTINUED)

As at the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	2017 $'000	2016 $'000
Within 60 days of supplier invoice date	522,201	262,538
61 to 120 days after supplier invoice date	45,995	77,029
More than 120 days but within 12 months after supplier invoice date	2,707	8,635
More than 12 months after supplier invoice date	316	518
	571,219	348,720

21. BANK LOANS

At 31 December 2016, all the unsecured and interest-bearing bank loans were repayable within one year or on demand.

All of the Group's banking facilities are subject to the fulfilment of covenants relating to the Group's statement of financial position ratios which are commonly found in lending arrangements with financial institutions. In the event that the Group breaches the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Such banking facilities amounted to $478,250,000 (2016: $556,900,000) as at 31 December 2017. Nil amount of the facilities were utilised (2016: $8,890,000). Further details of the Group's management of liquidity risk are set out in note 26(b). As at 31 December 2017 and 2016, none of the covenants relating to drawn down facilities has been breached.

22. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2017 $'000	2016 $'000
Provisional Hong Kong Profits Tax paid	–	(16,882)
Taxation in respect of PRC income taxes	(1,009)	(1,886)
Taxation in respect of jurisdictions outside Hong Kong and the PRC	28	719
	(981)	(18,049)
Representing:		
Current tax recoverable	(1,013)	(19,466)
Current tax payable	32	1,417
	(981)	(18,049)

22. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation $'000	Provisions $'000	Unremitted earnings $'000	Future benefits of tax losses $'000	Total $'000
Deferred tax arising from:					
At 1 January 2016	158	(220)	7,000	–	6,938
Charged/(credited) to profit or loss (note 6(a))	225	–	–	(2,006)	(1,781)
At 31 December 2016	383	(220)	7,000	(2,006)	5,157
At 1 January 2017	**383**	**(220)**	**7,000**	**(2,006)**	**5,157**
Charged/(credited) to profit or loss (note 6(a))	**266**	**–**	**–**	**(7,617)**	**(7,351)**
Exchange difference	**8**	**–**	**–**	**–**	**8**
At 31 December 2017	**657**	**(220)**	**7,000**	**(9,623)**	**(2,186)**

The reconciliation to the consolidated statement of financial position is as follows:

	2017 $'000	2016 $'000
Net deferred tax assets recognised in the consolidated statement of financial position	**(10,348)**	(2,731)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**8,162**	7,888
	(2,186)	5,157

22. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(q), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $50,583,000 (2016: $49,616,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities for the foreseeable future. None of the tax losses expire under the current tax legislation.

23. DEFERRED INCOME

	2017 $'000	2016 $'000
Current portion	**1,344**	–
Non-current portion	**1,606**	–
	2,950	–

During the year ended 31 December 2017, the Group received government grants of RMB4,353,000 (approximately HK$5,049,000) (2016: $Nil) from the PRC authorities as incentives for acquiring machineries. The amount received is to be amortised and released to profit or loss over the useful lives of the relevant assets. During the year ended 31 December 2017, RMB1,894,000 (approximately HK$2,198,000) (2016:$Nil) of the grants were released to profit or loss.

24. EQUITY SETTLED SHARE-BASED TRANSACTIONS

Two share option schemes of the Company were adopted on 12 May 2003 (the "old Scheme") and 3 June 2013 (the "existing Scheme") respectively as an incentive for the Group's employees and business associates. The Directors are authorised, at their discretion, to invite any employee, director, including executive and non-executive directors or business associate of any company in the Group (the "Participants") to take up options to subscribe for shares in the Company at a price determined by the Board and notified to each grantee and which will not be less than the closing price of the shares on the Stock Exchange of Hong Kong (the "Stock Exchange") on the date of offer of the option granted to such grantee or the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the option granted to such grantee or the nominal value of the shares, whichever is higher.

The maximum number of shares in respect of which options may be granted under each share option scheme and any other share option schemes of the Company may not exceed 10 percent of the issued share capital of the Company at the date of approval of each of the two share option schemes. The options under these two share option schemes are exercisable for a period of ten years from the date of grant.

On 24 June 2010, the Company granted 11,700,000 share options to the Participants under the old Scheme. Each share option entitles the holder to subscribe for one share of $0.25 of the Company at an exercise price of $2.50. The contractual life of these share options is the period from the date on which an option certificate is issued after acceptance by the grantees and expired on 30 June 2016. Among the 11,700,000 share options granted, 7,000,000 share options were granted to the Directors. Further details are set out in the Company's announcement dated 24 June 2010.

24. EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

On 9 July 2015, the Company granted 8,600,000 share options to the Participants under the existing Scheme. Each share option entitles the holder to subscribe for one share of $0.25 of the Company at an exercise price of $5.72. The contractual life of these share options is the period from the date on which an option certificate is issued after acceptance by the grantees and expiring on 31 August 2018. Among the 8,600,000 share options granted, 5,900,000 share options were granted to the Directors. Further details are set out in the Company's announcement dated 9 July 2015.

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of options	Vesting conditions	Contractual life of options
Options granted to directors:			
– 24 June 2010	7,000,000	Exercisable in five equal tranches immediately from 1 July of each year from 2011 to 2015	Expire at the close of business on 30 June 2016
– 9 July 2015	5,900,000	Exercisable in three tranches immediately from 1 September of each year from 2015 to 2017	Expire at the close of business on 31 August 2018
Options granted to employees:			
– 24 June 2010	4,700,000	Exercisable in five equal tranches immediately from 1 July of each year from 2011 to 2015	Expire at the close of business on 30 June 2016
– 9 July 2015	2,700,000	Exercisable in three tranches immediately from 1 September of each year from 2015 to 2017	Expire at the close of business on 31 August 2018

(b) The number and weighted average exercise prices of share options are as follows:

	2017		2016	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	$5.72	7,970,000	$4.73	12,150,000
Exercised during the year	$5.72	(120,000)	$2.647	(3,930,000)
Lapsed during the year	N/A	–	$5.72	(250,000)
Outstanding at the end of the year	$5.72	7,850,000	$5.72	7,970,000
Exercisable at the end of the year		7,850,000		5,579,000

The weighted average share price at the date of exercise for share options exercised during the year was $6.73 (2016: $2.65).

The options outstanding at 31 December 2017 had an exercise price of $5.72 (2016: $5.72) and a weighted average remaining contractual life of 0.67 years (2016: 1.67 years).

(Expressed in Hong Kong dollars unless otherwise indicated)

24. EQUITY SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted was measured based on the Black-Scholes pricing model and the Binomial Option pricing model. The contractual life of the share option and expectations of early exercise were incorporated into the Black-Scholes pricing model and the Binomial Option pricing model.

Fair value of and assumptions for share options granted on 24 June 2010	
Fair value at measurement date	$0.94
Share price	$2.50
Exercise price	$2.50
Weighted average volatility	43.89% – 50.29%
Weighted average share option life	3.52 – 5.52 years
Expected dividends	0.8%
Risk-free interest rate (based on Exchange Fund Notes)	1.30% – 1.80%
Fair value of and assumptions for share options granted on 9 July 2015	
Fair value at measurement date	$0.91
Share price	$5.65
Exercise price	$5.72
Weighted average volatility	35.71%
Weighted average share option life	3.14 years
Expected dividends	7.17%
Risk-free interest rate (based on Exchange Fund Notes)	0.65%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends were based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition had not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

25. CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity of the Company

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital $'000	Share premium (Note 25(d)(i)) $'000	Contributed surplus (Note 25(d)(ii)) $'000	Capital reserve (Note 25(d)(v)) $'000	Retained profits $'000	Total $'000
Balance at 1 January 2016		82,782	719,921	51,636	19,492	814,855	1,688,686
Changes in equity for 2016:							
Transfer to contributed surplus	25(d)(i)	–	(720,191)	720,191	–	–	–
Final dividends approved in respect of the previous year	25(b)(ii)	–	–	–	–	(101,960)	(101,960)
Loss and total comprehensive income for the year		–	–	–	–	(4,747)	(4,747)
Issuance of shares under share option scheme	25(c)(iii)	982	13,137	–	(3,715)	–	10,404
Issuance of new shares	25(c)(ii)	100,000	1,300,000	–	–	–	1,400,000
Equity settled share-based transactions		–	–	–	2,150	–	2,150
Capitalisation of issuing expenses	25(c)(ii)	–	(6,052)	–	–	–	(6,052)
Special dividend declared in respect of the current year	25(b)(i)	–	–	–	–	(451,298)	(451,298)
Balance at 31 December 2016		183,764	1,306,815	771,827	17,927	256,850	2,537,183
Balance at 1 January 2017		**183,764**	**1,306,815**	**771,827**	**17,927**	**256,850**	**2,537,183**
Changes in equity for 2017:							
Final dividends approved in respect of the previous year	25(b)(ii)	**–**	**–**	**–**	**–**	**(18,376)**	**(18,376)**
Profit and total comprehensive income for the year		**–**	**–**	**–**	**–**	**852**	**852**
Issuance of shares under share option scheme	25(c)(iii)	**30**	**770**	**–**	**(114)**	**–**	**686**
Equity settled share-based transactions		**–**	**–**	**–**	**653**	**–**	**653**
Balance at 31 December 2017		**183,794**	**1,307,585**	**771,827**	**18,466**	**239,326**	**2,520,998**

25. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2017 $'000	2016 $'000
Special dividend declared during the year of $Nil (2016: $1.35) per share (Note)	–	451,298
Final dividend proposed after the end of reporting period of 1.0 HK cent (2016: 2.5 HK cents) per share	7,352	18,376
	7,352	469,674

Note: Pursuant to the subscription agreement ("the Subscription") that was entered into by the Company and BOE Technology Group Co., Ltd ("the Subscriber" or "BOE") on 3 February 2016, upon completion of the Subscription on 28 April 2016, a special dividend of $1.35 per share to ordinary shareholders of the Company totalling $451,298,000 was declared and paid during the year ended 31 December 2016. No special dividend was paid to the Subscriber whom has agreed to waive its entitlement.

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2017 $'000	2016 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 2.5 HK cents (2016: 30.5 HK cents) per share	18,376	101,960

(c) Share capital

(i) Authorised and issued share capital

	2017		2016	
	No. of shares '000	Amount $'000	No. of shares '000	Amount $'000
Authorised:				
Ordinary shares of $0.25 each	800,000	200,000	800,000	200,000
Ordinary shares, issued and fully paid:				
At 1 January	735,055	183,764	331,125	82,782
Issuance of new shares	–	–	400,000	100,000
Issuance of shares under share option scheme	120	30	3,930	982
At 31 December	735,175	183,794	735,055	183,764

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Issuance of new shares

On 28 April 2016 upon the completion of the Subscription, 400,000,000 ordinary shares of the Company were allotted and issued as fully paid to the Subscriber at an issue price of $3.50 per share totalling $1,400,000,000, of which $100,000,000 was credited to share capital and the balance of $1,300,000,000 was credited to the share premium account. Issuing expenses in relation to the issuance of new shares of $6,052,000 was also capitalised into the share premium account.

25. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (continued)

(iii) Issuance of shares under share option scheme

During the year ended 31 December 2017, options have been exercised to subscribe for 120,000 ordinary shares (2016: 3,930,000 ordinary shares) in the Company at a consideration of $686,000 (2016: $10,404,000) of which $30,000 (2016: $982,000) was credited to share capital and the balance of $656,000 (2016: $9,422,000) was credited to the share premium account. $114,000 (2016: $3,715,000) has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(p)(ii).

(iv) Terms of unexpired and unexercised share options at the end of the reporting period

Exercise period	Exercise price HK$	2017 Number	2016 Number
1 September 2015 to 31 August 2018	5.72	7,850,000	7,970,000

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 24 to the financial statements.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by sections 150 and 157 of the Company's Articles of Association and the Companies Act 1981 of Bermuda. During the year ended 31 December 2016, pursuant to the passing of a resolution in the special general meeting on 21 April 2016, a capital reduction was implemented by transferring $720,191,000 from the share premium account to the contributed surplus account of the Company (note 25(d)(ii)). Further details are set out in the Company's announcement dated 18 March 2016.

(ii) Contributed surplus

Contributed surplus comprises the capital reduction of $720,191,000 transferred from the share premium account (note 25(d)(i)) during the year ended 31 December 2016 and the excess value of the shares of the subsidiaries acquired pursuant to the Group reorganisation scheme in 1991 over the nominal value of the new shares of the Company issued in exchange is credited to the contributed surplus account. Under the Companies Act 1981 of Bermuda (as amended) and the Bye-laws of the Company, the contributed surplus is distributable to shareholders. However, the Directors have no current intention to distribute this surplus.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in note 1(u).

(iv) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in notes 1(f) and 1(i).

(v) Capital reserve

The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments in note 1(p)(ii).

(vi) Other reserves

Other reserves comprise statutory reserves required in respect of a subsidiary in accordance with the relevant rules and regulations in the PRC and the premium paid for the acquisition of non-controlling interests.

(vii) Distributability of reserves

At 31 December 2017, the aggregate amount of reserves available for distribution to shareholders of the Company was $1,011,153,000 (2016: $1,028,677,000).

25. CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing loans and borrowings and trade and other payables) plus unaccrued proposed dividends, less trading securities, fixed deposits with banks and cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During 2017, the Group's strategy, which was unchanged from 2016, was to maintain a stable net debt-to-adjusted capital ratio. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The adjusted net debt-to-capital ratio at 31 December 2017 and 2016 was as follows:

	Note	2017 $'000	2016 $'000
Current liabilities			
Trade and other payables	20	656,784	424,060
Bank loans	21	–	8,890
Total debt		656,784	432,950
Add: Proposed dividends		7,352	18,376
Less: Fixed deposits with banks and other financial institutions with more than three months to maturity when placed	19	(222,137)	(626,231)
Cash and cash equivalents	19	(980,402)	(1,098,672)
Net cash		(538,403)	(1,273,577)
Total equity		2,802,041	2,731,607
Less: Proposed dividends		(7,352)	(18,376)
Adjusted capital		2,794,689	2,713,231
Adjusted net debt-to-capital ratio		N/A	N/A

The Company was not subject to any externally imposed capital requirements in either current or prior year. The Group is subject to certain externally imposed capital requirements to maintain the value of net assets at a level specified in its bank loan covenants (note 21).

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to cash at bank, deposits with banks and other financial institutions, trade and other receivables, loans receivable and investments in debt and equity securities. Management has a credit policy in place and exposures to these credit risks are monitored on an ongoing basis.

Investments are normally only in liquid securities quoted on a recognised stock exchange, except where entered into for long term strategic purposes. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations. Cash at bank and deposits with banks and other financial institutions are placed with licensed financial institutions with high credit ratings. The Group monitors the exposure to each financial institution.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. The status of the receivable is closely monitored to minimise any credit risk associated with these receivables. Trade receivables are generally due within 60 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

In respect of loans receivable, the Group reviews the borrowers' financial information periodically. Management considers the credit quality of such loans to be good since the borrowers have a good repayment history.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each debtor rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 28% (2016: 4%) and 33% (2016: 11%) of the total trade and other receivables were due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset, in the statement of financial position after deducting any impairment allowance. Except for the financial guarantees given by the Group as set out in note 28, the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of reporting period is disclosed in note 28.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 18.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and cash equivalents and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(b) Liquidity risk (continued)

The following tables show the remaining contractual maturities at the end of reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates currently applicable at the end of reporting period) and the earliest date that the Group can be required to pay:

	2017 Contractual undiscounted cash outflow			2016 Contractual undiscounted cash outflow		
	Within 1 year or on demand $'000	**Total $'000**	**Carrying amount at 31 December $'000**	Within 1 year or on demand $'000	Total $'000	Carrying amount at 31 December $'000
Non-derivative liabilities:						
– Bank loans	**–**	**–**	**–**	8,938	8,938	8,890
– Trade and other payables	**656,784**	**656,784**	**656,784**	424,060	424,060	424,060
	656,784	**656,784**	**656,784**	432,998	432,998	432,950

(c) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The Group is also exposed to currency risk through bank loans drawn and other financial assets acquired which are denominated in a foreign currency. The currencies giving rise to these risks are primarily United States dollars, Euros, Japanese Yen and Renminbi.

There is currently no hedging policy adopted by the Group with respect to its foreign exchange exposure. Most of the sales and purchases are made in the respective functional currency of each group entity, except for group entities whose functional currency is Hong Kong dollars, certain transactions are denominated in United States dollars and Japanese Yen. Given the Hong Kong dollar is pegged to the United States dollar, the Group does not expect that there will be any significant currency risk associated with such United States dollars denominated transactions. In respect of balances denominated in other currencies, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Currency risk (continued)

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency are excluded.

	2017 Exposure to foreign currencies (expressed in Hong Kong dollars)				2016 Exposure to foreign currencies (expressed in Hong Kong dollars)			
	United States Dollars $'000	**Euros $'000**	**Japanese Yen $'000**	**Renminbi $'000**	United States Dollars $'000	Euros $'000	Japanese Yen $'000	Renminbi $'000
Trade and other receivables	**533,623**	**–**	**–**	**–**	334,332	88	–	651
Other financial assets	**21,374**	**–**	**–**	**–**	15,437	–	–	38,003
Loans receivable	**15,500**	**–**	**–**	**–**	31,000	–	–	–
Cash and cash equivalents	**709,981**	**643**	**29,698**	**212**	538,234	1,747	12,532	347
Fixed deposits with more than three months to maturity when placed	**–**	**–**	**–**	**12,137**	616,809	–	–	–
Trade and other payables	**(106,915)**	**(2,131)**	**(26,450)**	**–**	(93,916)	(1,220)	(33,320)	–
Bank loans	**–**	**–**	**–**	**–**	(8,890)	–	–	–
	1,173,563	**(1,488)**	**3,248**	**12,349**	1,433,006	615	(20,788)	39,001

In addition, the Group exposed to currency risk arising from inter-company receivables and payables denominated in currency other than the functional currency of either the lender or the borrower. The net inter-company receivables amounted to United States dollars 5,115,000 and Renminbi 293,242,000 (2016: United States dollars 6,699,000 and Renminbi 253,619,000).

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Currency risk (continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after taxation (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies for group entities whose functional currency is Hong Kong dollars.

	2017		2016	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit after taxation and retained profits $'000**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after taxation and retained profits $'000
United States dollars	**10%**	**60,581**	10%	41,147
	(10)%	**(60,581)**	(10)%	(41,147)
Euros	**10%**	**(114)**	10%	80
	(10)%	**114**	(10)%	(80)
Japanese Yen	**10%**	**761**	10%	(1,529)
	(10)%	**(761)**	(10)%	1,529
Renminbi	**10%**	**1,235**	10%	3,889
	(10)%	**(1,235)**	(10)%	(3,889)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after taxation and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis has been performed on the same basis for 2016.

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Fair values

Financial instruments carried at fair value

The following table represents the carrying value of the financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 7, Financial instruments: Disclosures, with the fair value of each financial instruments categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

2017

	Level 1 $'000	**Total $'000**
Assets		
Listed available-for-sale debt securities	**12,773**	**12,773**
Listed available-for-sale equity securities	**296**	**296**
	13,069	**13,069**

2016

	Level 1 $'000	Total $'000
Assets		
Listed available-for-sale debt securities	10,782	10,782
Listed available-for-sale equity securities	1	1
	10,783	10,783

During the year there were no significant transfers between instruments in Level 1 and Level 2.

Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2017 and 2016.

(e) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Securities

Fair value is based on quoted market prices at the end of the reporting period without any deduction for transaction costs.

(ii) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(iii) Financial guarantees

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

27. COMMITMENTS

(a) Capital commitments outstanding at the end of the reporting period not provided for in the financial statements were as follows:

	2017 $'000	2016 $'000
Contracted for	30,353	33,003
Authorised but not contracted for	400,509	51,317
	430,862	84,320

(b) At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017 $'000	2016 $'000
Within 1 year	6,761	6,356
After 1 year but within 5 years	4,341	4,405
	11,102	10,761

All operating leases are for properties. The leases typically run for an initial period of 1 to 3 years, with an option to renew the leases when all terms are renegotiated. Lease payments are usually increased every year to reflect market rentals. None of the leases includes contingent rentals.

28. CONTINGENT LIABILITIES

Financial guarantees issued

As at the end of the reporting period, the Company has issued guarantees to banks in respect of banking facilities granted to certain subsidiaries.

As at the end of the reporting period, the Directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the end of the reporting period under the guarantees issued and the facilities drawn down by the subsidiaries is $nil (2016: $8,890,000).

The Company has not recognised any deferred income in respect of the guarantees as their fair value cannot be reliably measured using observable market data.

29. MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Directors is disclosed in note 7 and certain of the highest paid employees is disclosed in note 8.

(b) Transactions with related parties

The following transactions were carried out with related parties, including BOE and its subsidiaries other than the Group ("BOE Group"), except for disclosed elsewhere in the annual financial report.

	2017 $'000	2016 $'000
BOE Group:		
Purchase of goods from BOE Group (Note 1)	442,874	106,347
Subcontracting fee charged by BOE Group (Note 1)	13,978	–
Rental, management fee, utilities service fees and computer integrated manufacturing ("CIM") system fee charged by BOE Group (Note 2)	8,125	–
Purchase of fixed assets from BOE Group (Note 3)	67,962	–

Notes:

(1) The transactions were conducted based on the terms as governed by the renewed master purchase agreement and master subcontracting agreement entered into between the Company and BOE on 27 October 2016. Further details are set out in the Company's announcement dated 27 October 2016. The related party transactions constitute continuing connected transaction as defined in Chapter 14A of the Listing Rules.

(2) The transactions were conducted based on the terms as governed by the tenancy agreement and the related agreements entered into between Link Score Investment Limited, a wholly owned subsidiary of the Company, and Chengdu BOE Optoelectronics Technology Co., Ltd. ("Chengdu BOE"), a wholly owned subsidiary of BOE, on 13 January 2017. Further details are set out in the Company's announcement dated 13 January 2017. The related party transactions constitute continuing connected transaction as defined in Chapter 14A of the Listing Rules.

(3) The transaction was conducted based on the terms as governed by the acquisition agreement entered into between Chengdu BOE Vehicle Display Technology Co., Ltd. (formerly named as Varitronix (Chengdu) Display Technology Co. Ltd.), a wholly owned subsidiary of the Company, and Chengdu BOE on 20 February 2017. Further details are set out in the Company's announcement dated 20 February 2017. The related party transaction constitutes connected transaction as defined in Chapter 14A of the Listing Rules.

(c) Balance with related parties

At 31 December 2017, included in trade and other payables were amounts due to BOE Group for the purchase cost and other expenses payable of $81,560,000 (2016: $15,590,000). Non-current deposits of $38,902,000 (2016: $nil) were paid to BOE Group for the purchase of the TFT panels toolings for manufacturing TFT modules. Prepayment and rental deposits of $714,000 (2016: $nil) due from BOE Group were included in trade and other receivables.

30. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

(Expressed in Hong Kong dollars)

	Note	2017 $'000	2016 $'000
Non-current assets			
Investments in subsidiaries	13	**2,200,046**	2,185,192
Loans receivable		**–**	15,500
		2,200,046	2,200,692
Current assets			
Other receivables		**16,232**	16,082
Fixed deposits with more than three months to maturity when placed		**–**	272,265
Cash and cash equivalents		**311,119**	53,303
		327,351	341,650
Current liabilities			
Other payables		**6,397**	5,156
Current tax payable		**2**	3
		6,399	5,159
Net current assets		**320,952**	336,491
NET ASSETS		**2,520,998**	2,537,183
CAPITAL AND RESERVES			
Share capital	25(c)	**183,794**	183,764
Reserves	25(a)	**2,337,204**	2,353,419
TOTAL EQUITY		**2,520,998**	2,537,183

Approved and authorised for issue by the board of directors on 27 March 2018.

Yao Xiangjun
Director

Ko Wing Yan, Samantha
Director

31. IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

At 31 December 2017, the directors consider the immediate parent and the ultimate controlling party of the Group to be BOE Technology (HK) Limited, which is incorporated in Hong Kong, and BOE Technology Group Co., Ltd, which is incorporated in PRC, respectively. BOE Technology Group Co., Ltd produces financial statements available for public use.

32. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
HK(IFRIC) 22, *Foreign currency transactions and advance consideration*	1 January 2018
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019

32. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI):

– The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.

– For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate the security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon adoption of HKFRS 9.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities for which the Group has the option to irrevocably designate them as FVTOCI on transition to HKFRS 9. The Group plans to elect this designation option for its investments in equity securities held on 1 January 2018. Consequently, these investments will continue to be measured at fair value at each reporting date, with movements in fair value recognised in other comprehensive income and dividend income recognised in profit or loss. However, the adoption of the FVTOCI option will give rise to a change in accounting policy for these investments in respect of the treatment of impairment losses and gains or losses on disposal as under the new policy the fair value gains and losses recognised in other comprehensive income will not be reclassified to profit or loss, even when these investments are impaired or disposed of. This change in policy will have no impact on the Group's net assets and total comprehensive income but will decrease volatility in profit or loss.

32. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

HKFRS 9, Financial instruments (continued)

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model may result in earlier recognition of credit losses. Based on a preliminary assessment, the directors of the Group anticipate that the adoption of HKFRS 9 would not have material impact on the results and financial position of the Group.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

The Group's revenue recognition policies are disclosed in note 1(s). Currently, revenue from sales of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

Based on the assessment completed to date, the Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from sales of goods.

Five Year Summary

(Expressed in Hong Kong dollars)

	2013 $'000	2014 $'000	2015 $'000	2016 $'000	**2017 $'000**
Results:					
Revenue	2,604,172	2,613,058	2,487,820	2,247,470	**2,879,159**
Profit from operations	312,229	272,649	324,810	59,699	**20,628**
Finance costs	(2,446)	(4,858)	(3,472)	(1,197)	**(50)**
Share of (losses)/profits of associate	4,767	14,422	4,020	(453)	**(297)**
Profit before taxation	314,550	282,213	325,358	58,049	**20,281**
Income tax credit/(charge)	(71,400)	(31,771)	(24,997)	(7,526)	**1,832**
Profit for the year	243,150	250,442	300,361	50,523	**22,113**
Attributable to:					
Equity shareholders of the Company	243,150	250,442	300,605	50,523	**22,113**
Non-controlling interests	–	–	(244)	–	**–**
Profit for the year	243,150	250,442	300,361	50,523	**22,113**
Assets and liabilities:					
Fixed assets	566,445	498,655	412,608	361,797	**500,847**
Interest in associates	114,247	124,627	4,747	4,150	**4,436**
Loans receivable	62,000	46,500	31,000	15,500	**–**
Other financial assets	29,878	29,569	57,353	10,783	**13,069**
Non-current deposits	–	–	–	18,336	**63,010**
Deferred tax assets	725	725	725	2,731	**10,348**
Net current assets	1,019,575	1,141,881	1,415,545	2,326,198	**2,220,099**
Total assets less current liabilities	1,792,870	1,841,957	1,921,978	2,739,495	**2,811,809**
Non-current bank loans	(59,147)	(44,395)	(8,879)	–	**–**
Deferred tax liabilities	(5,539)	(5,461)	(7,663)	(7,888)	**(8,162)**
Deferred Income	–	–	–	–	**(1,606)**
Net assets	1,728,184	1,792,101	1,905,436	2,731,607	**2,802,041**
Capital and reserves					
Share capital	81,621	81,979	82,782	183,764	**183,794**
Reserves	1,646,319	1,709,878	1,822,654	2,547,843	**2,618,247**
Total equity attributable to equity shareholders of the Company	1,727,940	1,791,857	1,905,436	2,731,607	**2,802,041**
Non-controlling interests	244	244	–	–	**–**
Total equity	1,728,184	1,792,101	1,905,436	2,731,607	**2,802,041**
Earnings per share (in HK cents)					
Basic	74.7	76.5	91.2	8.4	**3.0**
Diluted	73.5	74.8	90.4	8.4	**3.0**

Properties Held by the Group

	Location	Existing use	Percentage holding
1.	Flat G, 22nd Floor, Tower 1, Yue Man Centre, Nos. 300 and 302 Ngau Tau Kok Road, Kwun Tong, Kowloon	Staff quarters	100%
2.	128 Heyuan Road, Yuancheng District Heyuan City, Guangdong, The People's Republic of China	Industrial	100%
3.	Unit 3 Milbanke Court, Milbanke Way, Bracknell, Berkshire, United Kingdom	Office	100%

Note: The above properties are either freehold, held on long or medium-term leases or have no specified lease term.

Corporate Information

BOARD OF DIRECTORS

Executive Directors:

Mr. Yao Xiangjun *(Chairman)*
Ms. Ko Wing Yan, Samantha
Mr. Su Ning

Non-executive Directors:

Ms. Yang Xiaoping
Mr. Dong Xue
Mr. Yuan Feng

Independent Non-executive Directors:

Mr. Fung, Yuk Kan Peter
Mr. Chu, Howard Ho Hwa
Mr. Hou Ziqiang

COMPANY SECRETARY

Mr. Lam Cheuk Yin, Kenneth

AUDIT COMMITTEE

Mr. Fung, Yuk Kan Peter *(Chairman)*
Mr. Chu, Howard Ho Hwa
Mr. Hou Ziqiang

REMUNERATION COMMITTEE

Mr. Fung, Yuk Kan Peter *(Chairman)*
Mr. Yao Xiangjun
Ms. Ko Wing Yan, Samantha
Mr. Chu, Howard Ho Hwa
Mr. Hou Ziqiang

NOMINATION COMMITTEE

Mr. Yao Xiangjun *(Chairman)*
Mr. Su Ning
Mr. Fung, Yuk Kan Peter
Mr. Chu, Howard Ho Hwa
Mr. Hou Ziqiang

INDEPENDENT AUDITORS

KPMG
Certified Public Accountants

PRINCIPAL BANKERS

MUFG Bank, Ltd.
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units A-F, 35/F., Legend Tower
No.7 Shing Yip Street
Kwun Tong, Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17/F., Hopewell Centre
183 Queen's Road East
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